



# THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)

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**TRANSPARENCY AND ACCOUNTABILITY IN THE EXTRACTIVES  
SECTOR**

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# Outline



- Objectives

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- Background

- Principles & Criteria

- Implementation Stages

- Importance of EITI Framework

- Current Trends in Transparency & Accountability

- Impact of Transparency on Revenue Management & Challenges

- Conclusion



# Key Objectives

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1. To increase transparency and accountability in the receipt, disbursement and utilisation of payments and revenues generated by EI in countries that depend heavily on these resources.
2. To promote development outcomes in the extractive sector.
3. To prevent large scale embezzlement in the extractive sector.
4. To stimulate public debate around the EITI reports for policy making.



## When did it all start ?

- UK prime minister Blair launched the initiative at the world summit on sustainable development in Johannesburg in Sept 2002
- The Initiative is grounded in a shared belief that the prudent exploitation of natural resource wealth should provide the basis for sustainable economic growth that contributes to sustainable development.



# Principles

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- There are 12 principles that underpin the implementation of the initiative.
- The Principles basically affirm the preconditions for unleashing the development potential of natural resources. These are:
  - 1. Prudent management of extractive revenues;
  - 2. Sovereign governments' responsibility to ensure that their citizens benefit from natural resource extraction;
  - 3. Recognition of the volatile nature of the prices of natural resources in the budgeting process;



## Principles Cont'd 2

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- 4. Afford opportunities for public debate over expenditure options;
- 5. Transparency is necessary to improve public financial management & accountability;
- 6. Respect for contracts and laws must go hand in hand with transparency;
- 7. Financial transparency will reduce the cost of doing business and bring in both domestic and foreign direct investment;



## Principles cont'd 3

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- 8. Governments must recognise their duty to be accountable to their citizens for the management and use of extractive revenues;
- 9. Commitment to high standards of transparency and accountability in public life, government operations and in business;
- 10. Simplified approach to the disclosure of payments and revenues is necessary for greater participation of citizens;

# Principles cont'd 4



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- 11. Payments' disclosure in a country should involve all extractive industry companies operating in that country;
- 12. All stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors and NGOs.



# EITI Criteria/Requirements

1. Effective oversight by the multi-stakeholder group.
2. Timely publication of EITI Reports.
3. EITI Reports that include contextual information about the extractive industries.
4. The production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues, and disclosure of all material payments to government by oil, gas and mining companies.
5. A credible assurance process applying international standards.
6. EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.
7. That the multi-stakeholder group takes steps to act on lessons learned and review the outcomes and impact of EITI implementation.

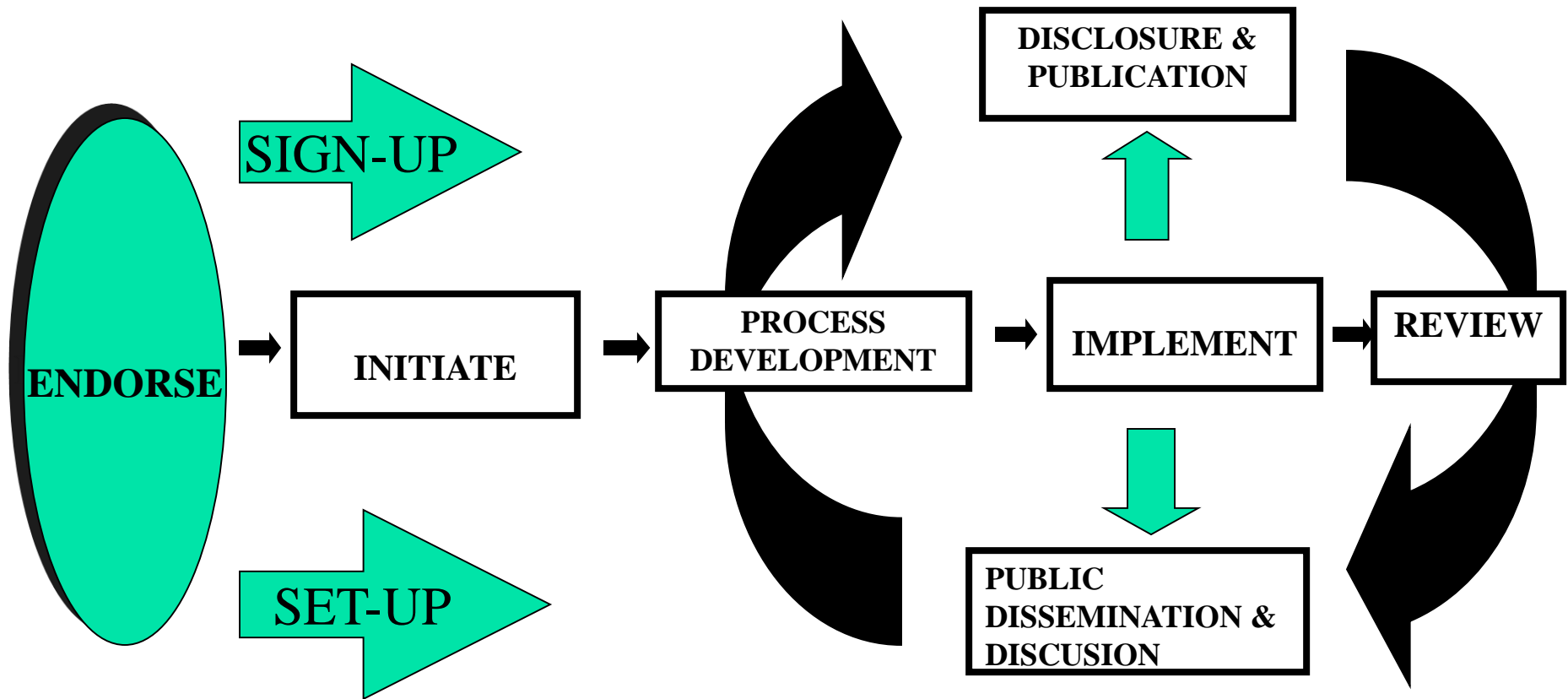


# Key Stakeholders

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- **EITI is a government –led process at the country level but the principles and criteria call for active involvement of all stakeholders**
- **Public Institutions**
  - **Executive (Agencies responsible for natural resource revenue collection/ mg't/economic dev't/private sector regulation & public administration**
  - **Legislature( budgetary/natural resource /regional & local government administrators**
  - **Supreme audit institutions**
- **Private sector**
  - **Companies (state- domestic/international,private-domestic/international**
  - **Investors**
  - **Business Associations**
- **Civil society**
  - **CBOs, NNGOs, INGOs, TUs, Academic & Research Institutions and Media, FBOs**
- **EITI implementers**
  - **Administrators, auditors/or disclosure agencies**
- **International Partners**
  - **IFIs &Donors**

# What does it involve?



**EITI: Stages of Implementation**



# Endorse & Initiate:

Is there consensus on the development and planning of the initiative?

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- **Endorse**

- After official endorsement the government in consultation with key stakeholders initiate the process in accordance with the principles and criteria
- Revision of legal frame work to identify any potential obstacles to EITI implementation

- **Initiation involves**

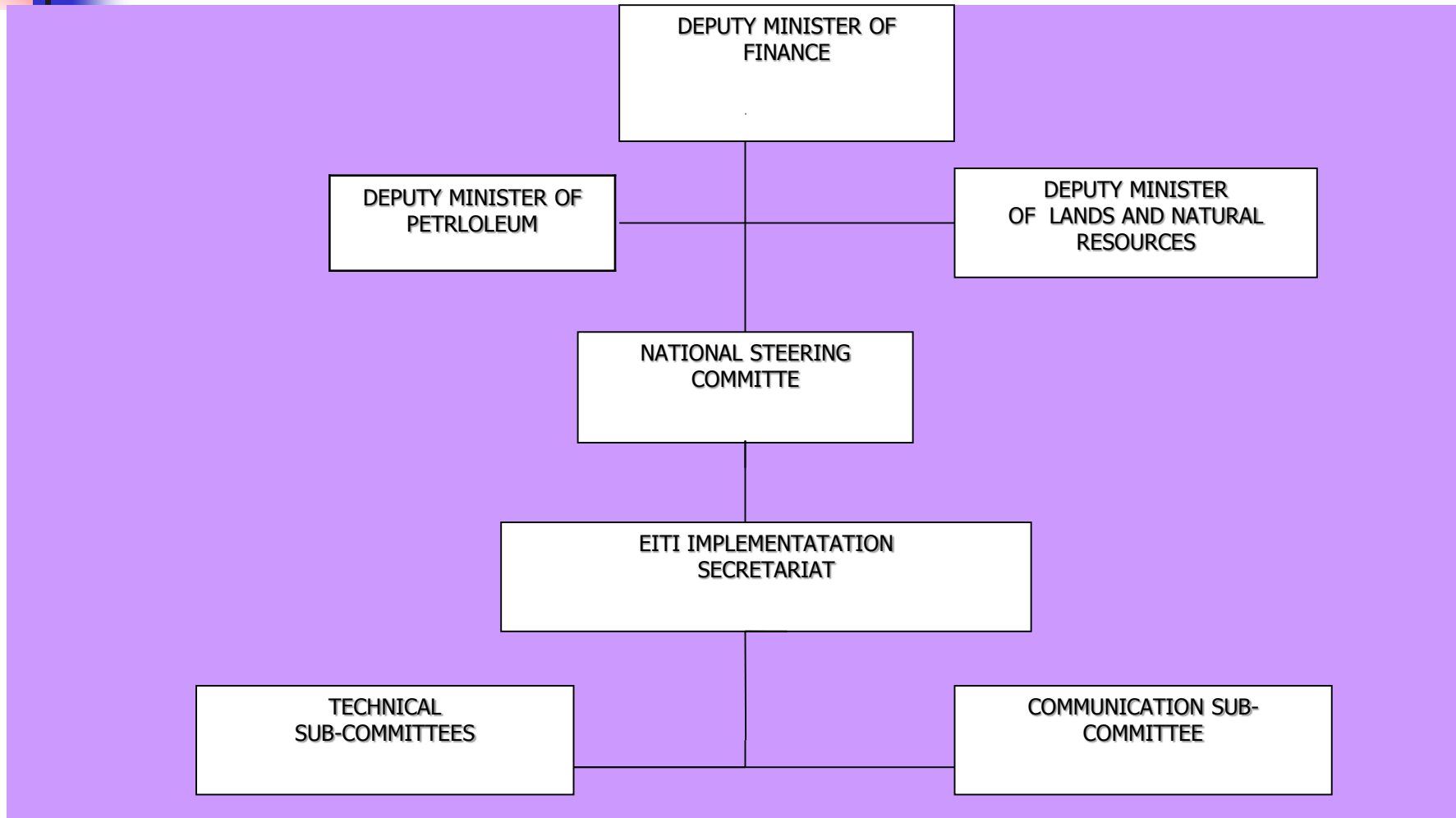
- Establishment of governance structures for decision making
- Outline a work plan
- Capacity building &
- Sustainable funding arrangement

# Implementation:

## Are payments and revenues published in credible and comprehensive manner?

- All stakeholders( Government, companies, CSOs all “agree” on
- Disclosing
  - Are key stakeholders content with the reporting templates
  - Is there a trusted and an impartial administrator/auditor?
  - Has a decision been made on whether company reporting should be on a voluntary or mandatory basis?
  - Have capacity needs among key EITI stakeholders been identified?
- Dissemination
  - Is the agreement on the scope and nature of disclosure?
  - Is the agreement on which benefit streams should be reported?
- Discussing the reported revenues
  - **Have arrangements been made to disclose the results in a credible, accessible and understandable way?**
  - **Are procedures in place to disseminate the results widely?**

# EITI implementation structure in Ghana





## Importance of the EITI Framework

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- Countries rich in natural resources have tended to under-perform economically, have a higher incidence of conflict, and suffer from poor governance. Encouraging greater transparency in countries rich in natural resources through the EITI can mitigate some of the potential negative impacts;
- The EITI framework provides benefits for implementing countries which include an improved investment climate by providing a clear signal to investors and international fin'l institutions that the gov't is committed to greater transparency;



# Importance of the EITI Framework

## Cont'd2

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- EITI helps in strengthening accountability and good governance by promoting greater economic and political stability which in turn contribute to the prevention of conflicts in and around the area(s) of the resources.
- EITI also provides benefits to companies and investors which centre on mitigating political and reputational risks. Political instability caused by opaque governance is a clear threat to investments and EIs where investments are capital intensive and dependent on long-term stability to generate returns, reducing such instability is beneficial for business.





## Importance of the EITI Framework Cont'd 3

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- Transparency of payments made to a government also help to demonstrate the contribution that their investment makes to a country.
- Active participation of CS is central to EITI implementation and so the benefits CS derives comes from increasing the amount of information in the public domain about revenues that gov'ts manage on behalf of citizens making it possible for people to hold their governments more accountable.



# Current Trends in Transparency and Accountability in the Extractives Sector

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- The Standard goes beyond the revenue link to cover other links in the EI value chain;
- It requires EITI reports to include contextual information about the extractive industries such as: description of the legal framework and fiscal regime, the sector's contribution to the economy, production data; state participation in the extractive industries;

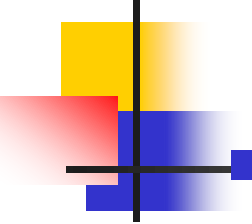


## Current Trends Cont'd 2

revenue allocations and the sustainability of revenues, license registers and license allocations; and any applicable provisions related to beneficial ownership and contracts.

- Implementing countries are encouraged to publicly disclose all contracts and licenses that provide the terms attached to the exploitation of oil, gas and minerals;

## Current Trends Cont'd 3

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- EITI reports must also document the government's policy on disclosure of contracts and licenses. This should include relevant legal provisions, actual disclosure practices and any reforms that are planned or underway;
  - EITI Report should again provide an overview of the contracts and licenses that are publicly available, and include a reference or link to the location.



## Current Trends Cont'd 4

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- Environment and social costs considerations of extracting the resource
- Mainstreaming of the EITI
- From reports to policy reforms/impacts



# Impact of Transparency on Revenue Management

1. Increase in corporate income tax rate from 25% to 35%;
2. Variation of the royalty rate from a range of 3-6 percent to a fixed rate of 5 percent;
3. Staggering of capital allowance recovery over 5 years;
4. Development of guidelines for the use of mineral royalties at the district level;
5. Development of guidelines for CSR;
6. Renegotiation of stability agreement.



## Impact of Transparency on Revenue Management Cont'd2

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- Passage of MDF Bill by Parliament which is currently awaiting presidential assent; and
- The PRMA (Act 815) has clear cut provisions on how revenues in the oil sector should be managed – monitoring compliance and reporting processes.



## Challenges of EITI Implementation

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- Difficulty in accessing data;
- Voluntary nature of EITI –Enforcement problems;
- The need to ensure sustainability of the EITI – Funding, Relevance and Legal backing





# Conclusion: key issues

- The EITI is a good tool for transparency and accountability in the ES but the scope needs to be broadened to cover the entire value chain of the sector;
- Communities' concerns are less of the revenue flows and more of the relationship between them and the mining and oil/gas companies. In particular, issues of crop compensation, unaccountable traditional authority, environmental cost and compensation, livelihood insecurity, and human right abuses in the communities with the natural resources.
- THANK YOU FOR YOUR KIND ATTENTION