

# HOW EITI IMPLEMENTATION CONTRIBUTES TO DOMESTIC RESOURCE MOBILISATION

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The brief provides examples from many of the 51 EITI member countries of how they have used their implementation of the EITI Standard to boost domestic resource mobilisation. While progress is being made, the brief concludes by setting out further ways in which countries can make use of the EITI to mobilise domestic resources.

The EITI contributes to domestic resource mobilisation by:

1. Improving tax administration.
2. Identifying practices that could undermine taxation.
3. Fostering dialogue about fiscal policies and reforms.

This raises the opportunities to:

- Investigate concerns, challenges and opportunities related to the content of fiscal policies, planned reforms, and tax administration.
- Implementing reform recommendations from EITI reporting that seek to address gaps in tax policies and tax collection practices.
- Provide public access to the fiscal terms governing each extractive project.
- Disclose data on taxes and revenues disaggregated by each individual oil, gas and mining project
- Implement beneficial ownership transparency in the oil, gas and mining sector.



## **EITI's contribution to the UN Sustainable Development Goals**

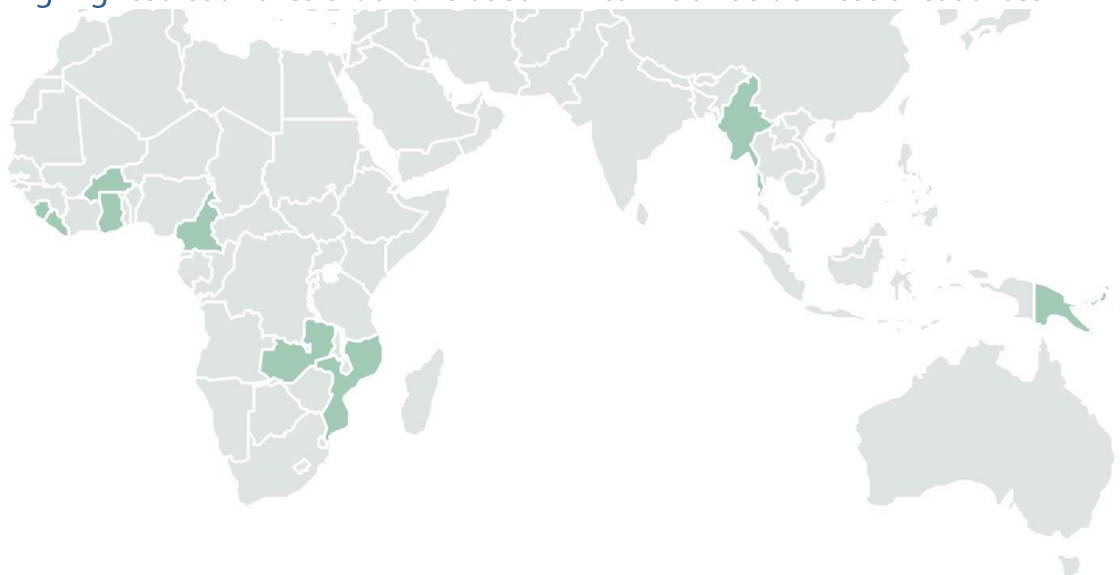
Target 17.1: strengthen domestic resource mobilization, including through international support to developing countries to improve domestic capacity for tax and other revenue collection

## Domestic resource mobilisation in the extractive sector

Domestic resource mobilisation concerns the generation of government revenue from domestic resources. In the extractive sector, this includes tax and non-tax revenue such as royalties, production share and bonuses from the extraction of oil, gas and minerals. Assessing current and potential domestic resource mobilisation from the extractive sector involves understanding the volume of revenue generated as well as the content of tax policies, tax rules and associated challenges.

Where oil, gas and minerals are managed well, these resources can foster domestic resource mobilisation by providing opportunities for employment, business development and increased fiscal revenues. However, many resource-rich countries face challenges in tax policy and tax administration that impede domestic resource mobilisation. These challenges include designing a fiscal regime that effectively responds to changes in commodity prices and fluctuating production, tax compliance, weak tax administration, and poor tax governance.

### 10 highlighted countries that have used EITI to mobilise domestic resources



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## How the EITI contributes to domestic resource mobilisation

### 1. Improving tax administration

Domestic resource mobilisation depends on the government's ability to collect and administer the fiscal system. This can be particularly difficult where multiple government agencies are involved in collecting taxes and administering the fiscal regime. Weak capacity and lack of record keeping systems often prevent the government from managing tax collection effectively.

The EITI Standard requires transparency in the roles and responsibilities of government agencies in managing the fiscal system. This enables greater government accountability in how government agencies exercise their tax duties vis-à-vis the oil, gas and mining companies operating in the country. EITI reporting also highlights need for capacity building and improvement in inter-agency collaboration, thus contributing to improved tax administration.

In **Mozambique**, EITI reporting has helped improved inter-agency collaboration necessary for efficient tax collection. For example, the Tax Authority is dependent on reliable data from the Ministry of Energy and Mineral Resources on the size of the license area in order to calculate the surface rent that ought to be paid. Due to inconsistencies in the data revealed through the EITI report, the government is now implementing reforms to improve data sharing between the agencies involved.

In **Cameroon**, the 2015 EITI Report revealed the lack of payment of capital gains tax accruing from the divestment of the operator of the Etindé field, despite the sale of such assets being subject to capital gains tax in accordance with the General Tax Code.

Although the sale was approved by the Ministry of Hydrocarbons in accordance with the applicable legal framework, the report revealed that there does not seem to be any procedures in place notifying the tax authorities of such sales. The report therefore recommended the establishment of a system for notifying the relevant authorities for future transfers or sales of assets.

In **Liberia**, the LEITI audits of mining licence awards highlighted challenges with enforcement of legal provisions, showing that some of the concessions contain income tax stabilisation clauses that exceed the time-period allowed by the Revenue Code. While the Revenue Code enables the government to grant concessions stabilising income tax rates and royalty rates for up to a maximum of 15 years, some of the concessions that had been signed contained stabilisation clauses spanning 65 years. According to the audit "this situation constitutes a contradiction with the revenue code and undermines the Government of Liberia's regulatory powers over a long period"<sup>1</sup>.

Similarly, in **Sierra Leone**, the 2015 EITI Report shows that the agreements governing mining projects contain royalty rates and corporate income tax rates that differ from one agreement to the other. The report recommends that the government should as much as practicable establish fiscal terms that are uniform for all contracts, in particular for royalties and corporate income tax. The report argues that these revenue streams are expected to bring the largest revenues for the state, and inconsistencies are likely to significantly reduce extractive revenues.

<sup>11</sup> LEITI 2013 Post-award audit report, <http://www.leiti.org.lr/uploads/2/1/5/6/21569928/151344593-leiti-post-award-process-audit-process-report.pdf> p. 74.

## 2. Identifying practices that could undermine taxation

Experience has shown that countries that adopt inadequate fiscal regimes and that have weak institutions and tax administration systems, may face a range of governance challenges that could impact domestic resource mobilisation. In the extractive sector, challenges such as corruption, tax evasion, poorly designed tax incentives, and transfer pricing are particularly prevalent. Sometimes, taxes are paid but never end up in government coffers, undermining the legitimacy of the existing fiscal regime.

The EITI Standard requires public disclosure of all taxes and non-tax revenues paid by oil, gas and mining companies to the government. Such disclosures enable the public to assess the extent to which the government receives what it ought to from each individual extractive project, comparing the fiscal terms governing a project with data on actual payments. It has also been argued that this type of reporting can help address tax avoidance and tax evasion by shedding light on transfer pricing practices, and assist governments in making more accurate forecasts of future revenues. [The EITI thus contributes to uncover practices that might undermine taxation.](#)

In **Papua New Guinea**, companies can claim amounts spent on infrastructure projects as a credit against taxes payable. PNGEITI's reporting has contributed to shed light on discrepancies and inconsistencies with regards to the value of tax forgone as a result of claims related to infrastructure spending. As a result, the government has announced administrative reforms to improve the approval process for granting infrastructure tax credits. The government has also committed to ensuring greater transparency in total taxes offset, enabling an assessment

of the impact of the infrastructure tax credit policy on total revenues.

In **Ghana**, the 2010-11 GHEITI oil and gas report highlighted that there was no clear provision on ring fencing in the petroleum sector, allowing companies to transfer costs related to projects under development to projects that were generating revenues to reduce tax liabilities. A new Income Tax Act was subsequently enacted requiring companies to "ring-fence" their costs by field when reporting for tax purposes, preventing the carry-over of losses from one project to another.

In the **Republic of Congo**, EITI reporting has revealed that maritime tax paid by oil and gas companies to a private company, Société Congolaise de Transport Maritime (SOCOTRAM), has never been remitted to the treasury. SOCOTRAM holds a concession to collect this tax on oil and gas exports on behalf of the state. Further, the EITI reports have shown that the domestic refinery CORAF, which receives about USD 600 million worth of crude oil annually from the national oil company SNPC, has never remitted the revenues accruing from its sale of oil products from this crude oil to the treasury.

In **Zambia**, EITI reporting has resulted in efforts to strengthen the monitoring of the minerals industry to improve tax collection. EITI reporting identified several gaps related to production data. These production figures were based on company declarations that were not adequately verified. The government with support from partners has taken action to improve monitoring and verification of production data in order to collect the corresponding revenue and to reduce the risk of tax evasion.

### 3. Fostering dialogue about fiscal policies and reforms

The effectiveness of a fiscal regime in the oil, gas and mining sector depends on its rules, its tools and the ability of the government to administer the fiscal system. Overly complex systems can cause misinterpretations and loopholes that affect the revenues collected from the sector. If the system is not robust enough to tackle the “booms and busts” in commodity prices, it is unlikely to be regarded as credible to citizens of resource-rich countries. This can potentially lead to calls for renegotiation of contracts and amendments to the fiscal regime, which in turn can impact their credibility in the eyes of investors.

The EITI Standard requires transparency in a country’s fiscal regime and an account of any reforms underway. By providing a multi-stakeholder platform for discussion and dialogue, the EITI thus contributes to fostering dialogue about the effectiveness of a country’s current fiscal regime, options for reform, as well as concerns and opportunities that should be taken into account by policy makers.

In **Ghana**, the earliest GHEITI reports covering the mining sector showed the low rates of ground rent and royalties applicable to mining projects. Over several years, GHEITI reports and the GHEITI multi-stakeholder

group provided recommendations and input to the discussion about increasing the ground rent rates, which were eventually approved by the Parliament in 2014. Royalty rates were also increased from an effective rate of 3 percent to 5 percent of gross revenue from minerals. According to GHEITI, “the implementation of the various findings and recommendations in the EITI reports has contributed considerably to policy and regulatory changes that ultimately have had positive impact on the contribution of the extractive sector to national economic development, especially by increasing government’s take in the sector”<sup>2</sup>

In **Myanmar**, the MEITI reports have shown that the state-owned oil, gas and mining companies retain more than 50% of the total revenue from the extractive sector in off-budget accounts. This finding has sparked a debate about the rationale for existing fiscal framework.

In **Burkina Faso**, the government adopted a participatory approach when seeking to initiate revisions to mining royalties and taxes in 2012. Building on the multi-stakeholder platform established by the EITI, industry views and concerns were considered before the new Mining Code was eventually adopted in 2015.

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<sup>2</sup> GHEITI 2015 Annual Activity Report, [https://eiti.org/sites/default/files/documents/2015\\_annual\\_activity\\_report\\_-\\_final\\_1\\_0.pdf](https://eiti.org/sites/default/files/documents/2015_annual_activity_report_-_final_1_0.pdf); p.17.

## Opportunities for further work

The EITI has played an important diagnostic role in highlighting challenges in tax collection and tax administration that impede domestic resource mobilisation. Further work is needed. Governments that have made domestic resource mobilisation a key objective of EITI implementation should consider:

1. Continuing to make use of the EITI process to investigate particular concerns, challenges and opportunities related to the content of fiscal policies, planned reforms, and tax administration.
2. Implementing reform recommendations from EITI reporting that seek to address gaps in tax policies and tax collection practices.
3. Providing public access to the fiscal terms governing each extractive project, in particular where such terms are set out in individual agreements and contracts governing the extractive project. The EITI encourages disclosure of any contracts and licenses that provide the terms attached to the exploitation of oil, gas and minerals. Publication of such fiscal terms would increase accountability in terms of the deals entered into by the government on behalf of the country. It could also enable greater inter-agency awareness of the applicable fiscal terms and thus improve revenue collection.
4. Disclosing data on taxes and revenues disaggregated by each individual oil, gas and mining project (as required by the EITI from fiscal year 2018 onwards) to facilitate an assessment of payments made against the fiscal terms of each project.
5. Implementing beneficial ownership transparency in the oil, gas and mining sector in accordance with the EITI requirements to shed light on corporate structures and close loopholes that could facilitate tax evasion, transfer pricing, and illicit financial flows.



*“Domestic resource mobilisation is a key objective for many resource-rich countries that are implementing the EITI. The EITI helps to build understanding of tax policies and reforms. It then helps uncover whether the tax that was due has actually been paid. Finally, it proposes remedies to improve revenue collection. Greater transparency also enables citizens to hold the government to account for how they administer collection of tax and other revenues.”*

- Fredrik Reinfeldt, EITI Chair