



From reports to reform

Highlighting the potential of recommendations from EITI Reports

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Introduction

In many countries, the most important contribution of the EITI has come about because governments have decided to act on recommendations that have emerged from EITI reporting. Experience suggests that the nature of the recommendations in EITI Reports and the extent to which the EITI multi-stakeholder group and the government follow up on the recommendations significantly influence the impact of the EITI.

In many countries, EITI Reports have been useful diagnostic tools identifying weaknesses in government systems. EITI Reports have often made recommendations aimed at addressing such weaknesses and improving sector management. They are thus making an important potential contribution to policy reform and change.

However, even where EITI reporting has revealed shortcomings, the recommendations have often focused on improving technical aspects of the EITI reporting process, such as reporting templates or data collection for EITI Reports, rather than improving extractive sector governance. Failure to implement recommendations has too often contributed to lost opportunities for impact and reform.

The following country stories show how EITI reporting has highlighted shortcomings in government systems, and recommended actions for improvements. The stories illustrate the impact in countries that have acted upon these recommendations, and highlight the potential and importance of considering EITI recommendations in the countries that have not yet done so.



Legal and fiscal framework: Ghana

Ghana's 2010-11 EITI Oil and Gas Report identified gaps in the existing legal and fiscal regime, leading to lack of payments of capital gains tax by oil companies.

In 2011, one of the international oil companies operating in Ghana, Tullow Oil Plc, acquired EO Group Limited, one of the partners in the Jubilee oil field. The EITI Report documented that there was no capital gains tax paid in the transaction, although the Ghana Revenue Authority had issued a ruling that the transaction is liable to such a tax. According to the Petroleum Revenue Management Act, the sale of exploration, development and production rights is subject to capital gains tax and should be collected by the petroleum holding fund.

The 2013 EITI Report recommended to follow up on the EO Group acquisition, including harmonising the relevant legislations.

To follow up on this recommendation, the Government of Ghana and the Ghana Revenue Authority have taken several actions to ensure that the legal framework covers such capital gains tax payments from the oil sector in the future, including:

- Passing the Act 871 (Internal Revenue Amendment) in 2013, which amended the provisions of the Internal Revenue Act to cover such capital gains tax payments from the oil sector in the future.
- Ensuring that capital gains tax was paid in other acquisitions, such as Sabre Oil's sale of its interest in the Jubilee Fields to Petro SA.
- Continuing to monitor, through EITI reporting, whether these types of sales are made in accordance with the legal framework. The 2012-13 EITI Oil and Gas Report noted the cases in which capital gains tax was applicable but not paid.






License allocations: Burkina Faso

Burkina Faso's 2012 EITI Report identified an agreement between the government and a mining company which was not entered into in accordance with the laws and regulations governing the sector.

According to the 2012 EITI Report, the Government of Burkina Faso and the company Pan African Limited entered into a public-private partnership related to the Tambao deposit on 11 August 2012. The Tambao deposit is one of the largest manganese deposits in the region. Despite the absence of any legal framework enabling such agreements to be signed at the time, the agreement was concluded by the Minister of Mines and Energy on behalf of the State, and approved by the Minister of Economy and Finance. It was only on 23 May 2013 that a decree stipulating the legal arrangements for public-private partnerships was issued. In addition, the EITI Report revealed that a signature bonus of USD 10 million was paid related to the agreement yet the legal framework does not provide for payment of such bonuses.



The 2012 EITI Report recommended that mineral agreements and contracts should be entered into in accordance with the applicable laws in order to guarantee and safeguard the interests of the state and the company. The report also recommended that laws and regulations governing signature payments should be put in place.


The government and the MSG have not yet considered this recommendation.



License registers: Peru

Peru's 2008-2010 EITI Report found inconsistencies in government records of license owners and the respective annual license payments.

Peru's mining license office – Instituto Geológico Minero y Metalúrgico (INGEMMET) – and the General Directorate of Mining (DGM-MINEM) are different entities within the Peruvian Ministry of Energy and Mines. While INGEMMET is responsible for the cadaster system and for processing license allocations, DGM-MINEM is in charge of collecting the annual license fees paid by license holders. Inconsistencies in the records held by the two entities showed that some companies that were not registered as license holders still made annual license payments. Peru's 2008-10 EITI Report found that INGEMMET did not monitor the name of the license holders as indicated by the mining claims. This means that some companies may be prospecting and/or operating under licenses that INGEMMET may not recognise, or that have not been reflected accurately in the cadaster system.



The 2008-2010 EITI Report recommended that INGEMMET improve their routines for monitoring licensing data and fees in order to ensure that government records on licenses and the annual license payments are consistent and accurate.

The government and the MSG has not yet considered this recommendation.



Contract transparency: Mongolia

Mongolia's 2013 EITI Report documented considerable confusion about the government's policy on contract transparency.

When approaching companies for copies of the Production Sharing Agreements (PSAs), the Independent Administrator, the firm producing the EITI Report, was told that the companies had no objection to the Petroleum Authority of Mongolia (PAM) releasing copies of the PSAs. However, senior officials of PAM refused to provide the PSAs explaining that confidentiality restrictions prevented the disclosure of PSAs without the agreement of the companies. The Independent Administrator then wrote to the Minister of Mines requesting a statement on the government's policy on contract transparency.

The Deputy Minister responded, stating *"As per the law currently in force, there is no regulation covered confidentiality (sic) in major terms of Production sharing agreements to be included in the "Extractive Industries Transparency Initiative 2013" reconciliation report. Therefore, there is no confidentiality issue affecting your request."*

The 2013 EITI Report recommended that the National Council should work with the Ministry of Mines to ensure that information on contracts is made public in accordance with government policy.



To follow up on this recommendation, the Government of Mongolia has taken several actions on the disclosure of contracts and licenses, including:


- Appointment of former Minister of Mineral Resources and Energy, D. Zorigt, to start improving the transparency of information relating to investment agreements and petroleum PSAs.
- Passing of Resolution 222 to make petroleum PSAs publicly available.
- Approval of templates for typical PSA agreements.
- Publication of 12 contracts on the EITI Mongolia website and development of a contracts portal in 2016 with over 30 contracts initially published.
- In addition, the establishment of a government policy on the minerals sector, which was approved by the Parliamentary Resolution #18 in January 2014, set the stage for the implementation of the recommendations on contract transparency. The intention behind the policy is to develop open, transparent, and responsible mining.



Beneficial ownership: Liberia

Liberia's EITI Beneficial Ownership Report found that the government records on the beneficial owners of companies operating in Liberia were not up to date.

The Liberia EITI (LEITI) Beneficial Ownership Report published in December 2015 indicated that the government agencies in charge of overseeing corporate activities do not sufficiently monitor ownership changes in extractive companies. According to the report, the Ministry of Lands, Mines and Energy, the Forestry Development Authority and the Ministry of Agriculture did not keep full records on beneficial owners of the companies operating in Liberia, even though, in some cases, it is a requirement that this information is collected during the process of awarding contracts and licenses. The report also noted that, in some cases, it is a requirement that the government agency concerned obtain or be notified of changes in ownership. Finally, the report concluded that relevant government agencies either do not publish the information, or there are concerns about the accuracy of the information.



Liberia's Beneficial Ownership Report recommended that government agencies should review their responsibilities for granting licenses and the regulation and monitoring of their respective sectors, and should put in place systems which enable them to fulfil these responsibilities.

The report also recommended that beneficial ownership disclosures should reflect at least three years of historical ownership changes for better coverage and more meaningful impact. The report was released in December 2015. The government and Liberia's multi-stakeholder group has not yet had the opportunity to consider how to act on the recommendations from the report.




State-participation: Myanmar

Myanmar's 2013-14 EITI Report documented that state-owned companies retain considerable amounts of revenue from the extractive sector.

State-owned enterprises (SOEs) in Myanmar play a significant role in collecting revenues from the extractive sector. In the financial year April 2013 to March 2014, SOEs collected 85% of all extractive industry revenue through “other accounts”. According to the report, these “other accounts” are essentially accounts held by state-owned companies for the management of their own resources. SOEs use this revenue to pay corporate income tax (25% of profit) and the state contribution (20% of profit) to government budget accounts, after which the SOE is entitled to spend the remaining 55% of net revenue on raw materials and operating costs.

For example, in 2013-14, state-owned Myanma Oil and Gas Enterprise (MOGE) retained USD 1.3 billion of the total USD 2.9 billion that the company collected on behalf of the state. The four state-owned mining companies collectively retained about USD 230 m. The report noted that “functioning modalities and use of these accounts were not provided. As a result we cannot provide explanation on rules and practices governing transfers of funds between the SOE(s) and the State, retained earnings, reinvestment and third-party financing as requested by Requirement 3.6 of the EITI Standard”.



The 2013-14 EITI Report recommended that, in order to improve the transparency and comprehensiveness of the budgeting process, the Ministry of Finance should consider whether revenues collected by SOEs from the extractive sector could be redefined as normal budgetary revenue and whether more information need to be disclosed with regards to “other accounts” in the budget.

The report was released in January 2016. The government and Myanmar’s multi-stakeholder group has not yet had the opportunity to consider how to act on this recommendation.



Exploration: Albania

Albania's 2013-14 EITI Report revealed outdated information on oil and mineral reserves.

The EITI Report found that the Government of Albania has not undertaken studies of the oil and mining geological reserves in the last 25 years. Geological studies and maps from the 1980s and 1990s exist but are not publicly available. Also, the report noted that the accuracy of this data is limited due to advancing exploration and extraction technologies as well as lack of official and accurate data on production extracted throughout the country since the date of the latest geological studies. For example, the report showed that according to government data, the outstanding recoverable reserves at the Patos-Marinza oil field were estimated at 5.7 million tons of crude oil, while Bankers Petroleum, which operates the oil field, reported much larger reserves, amounting to 18.5 million tons.




The 2012-13 EITI Report acknowledges that assessing national reserves requires many years and would place a heavy cost burden on the State. However, the report nevertheless recommends that the Ministry of Energy and Industry considers assessing reserves in areas with significant extractive interests. More coherent information on proven and probable reserves combined with tighter control over current exploration and extraction activities could ensure more efficient production and fiscal planning.

The report was released in December 2015. The government and Albania's multi-stakeholder group have not yet had the opportunity to consider how to act on this recommendation.

Production: Zambia

Zambia's 2012 EITI Report documented lack of monitoring of production data declared by the companies.

According to the EITI Report, the production data provided by Ministry of Mines was based on self-declarations submitted by the extractive companies. The Ministry did not have its own procedures and systems to collect and control production data reported by mining companies. The production data disclosed by the Mines Development Department for the large scale mining sector in 2012 was based only on copper concentrates and/or total cathodes produced. As a result, it was not possible to provide explanations with regards to the discrepancies arising between the production quantities provided by the mining companies and those declared by the Mines Development Department.



The 2012 EITI Report recommended that the Ministry of Mines develops procedures and systems to collect and control production data. It also suggests to compare the production volumes declared extractive companies with the measurements made by Ministry of Mines throughout the year.

The government and Zambia's multi-stakeholder group have not yet considered this recommendation.



Zambia



Exports: Togo

Togo's 2012 EITI Report revealed lack of control and monitoring of mineral exports.

According to the EITI Report, phosphate exports from the state-owned Société Nationale de Phosphates de Togo (SNPT) were not overseen by the Customs Office. Only the company maintains data on the export of phosphate and no government agency can confirm the accuracy of this data. In addition, the EITI Report revealed that iron exports made by the company MM Mining are subject to payment of mining royalties post-exports. This means that royalties were not due until the company had exported and reported on the quantity and value of the exports to Directorate General of Mines and Geology (DGMG). Taxes were then calculated and settled accordingly.



The 2012 EITI Report recommended that the legal framework regulating exports of mineral resources should foresee a procedure that engages both the Customs Office and DGMG to ensure that taxes and other dues are collected for the exported minerals. The procedure should include an export authorisation by DGMG before each export takes place. This authorisation should stipulate the mineral, quantity, price and export destination. The procedure could be enforced by the presence of a DGMG representative when the export takes place.

The government and Togo's multi-stakeholder group have not yet considered this recommendation.



Taxes and payments: Indonesia

Indonesia's 2010-11 EITI Report documented weaknesses in recordkeeping related to payments of royalties and Sales Revenue Share (PHT*) by mining companies, affecting revenue sharing with provinces.

In Indonesia, mining companies pay royalties and PHT directly to the Treasury. Upon payment, companies are obliged to submit the payment slip to the General Directorate of Mineral and Coal and to the local government. The 2010-11 EITI Report revealed that not all mining companies submit the payment slips to the Directorate, resulting in the payment not being recorded in the central government system. In some cases, the government had also erroneously recorded corporate income tax payments as royalties in their systems. In other cases, both the companies and the Directorate had used a different formula for calculating royalties. Given that a portion of royalties is transferred back to the producing region, this weakness in recordkeeping may have caused errors in the revenue sharing with provinces.

* Sales Revenue Share (PHT) is Coal Production Contribution (13.5%) less Royalty.



The 2010-11 EITI Report recommended that the proof of payment by mining companies should include clear and accurate information, especially on the detail of calculating Coal Production Contribution into royalty and PHT, to avoid errors in revenue sharing with producing regions. It also recommended that there be more streamlined recordkeeping between Treasury, the General Directorate of Mineral and Coal, and the General Directorate of Accounting and Financial reporting.


The 2012-13 EITI Report showed that accounting errors still occur in this area. The incompatibility between the accounting systems of the Ministry of Finance and the General Directorate of Mineral and Coal continues to cause delays in revenue sharing with local governments. The 2012-13 EITI Report recommended that the government creates an integrated payment and reporting system to eliminate the accounting differences. The report was published in November 2015. The government and Indonesia's multi-stakeholder group have not yet had the opportunity to consider this recommendation.



In-kind revenues: Trinidad and Tobago

Trinidad and Tobago's 2010-11 EITI Report identified incomplete reporting on in kind revenues paid by companies to state owned enterprises (SOEs), and the revenue received by the SOEs from the sale of these commodities.

The National Gas Company of Trinidad and Tobago Limited (NGC) is a SOE which purchases, transports, sells and distributes natural gas to industrial users. NGC supplies some of the gas that it collects in-kind as royalty to the Trinidad and Tobago Electricity Commission. The 2010-11 EITI Report found that there is no formal contract in place setting out the terms for the sale and payment of this gas to the Electricity Commission, and the take or pay arrangements for the royalty entitlement are not clearly understood. The Independent Administrator, the firm producing the EITI Report, noted that "it is important that transactions relating to state owned enterprises are properly regulated and transparently explained".



The 2010-11 EITI Report recommended that the government should clarify how these arrangements should work, and establish an appropriate reporting framework to cover such arrangements.

The reports published since have included information on NGCs agreements with companies and provided details on the types of revenue flows that NGC collects in-kind. For example, the 2011-12 EITI Report disclosed information on the types of payments that are permitted to be received in-kind by the government and SOEs. The 2012-13 EITI Report included information on the volumes of gas paid by the companies that have arrangements providing for payments to be made in-kind.



Transport revenues: Nigeria

Nigeria's 2012 EITI Oil & Gas Report identified issues with the management of oil transported via pipelines.

The Nigerian government transfers part of its share of oil production from one depot to another through pipelines. The transfers of crude oil and refined oil products to these depots are managed by the Petroleum Products Marketing Company (PPMC), a subsidiary of the Nigerian National Petroleum Company (NNPC). According to the EITI Report, the method of measuring and recording refined products by PPMC is not in accordance with best practices. The systems for recording the movement through the PPMC pipelines are fragmented and outdated, and therefore subject to error. The lack of monitoring has also led to significantly reduced transfer of oil products through pipelines due to huge losses arising from defective equipment and oil theft. The report documented a loss of 529.422 million liters of Premium Motor Spirit, equivalent to over USD 220 million from one of the deposits.



Given these findings, Nigeria EITI has followed up with the government and NNPC to improve the monitoring and measuring of oil product transportation:

- PPMC is establishing a digital measurement system for refined products for transportation. This system is already in use by various ports and depots.
- NNPC is working with the relevant security agencies to minimise losses from oil theft. Actions include deploying a Joint Task Force and Community guards to the port offices.



Barter arrangements: Democratic Republic of Congo

The 2010 EITI Report from the Democratic Republic of the Congo (DRC) documented lack of transparency around a joint venture agreement between a group of Chinese and Congolese companies.

Barter arrangements include agreements that involve the provision of goods and services in full or partial exchange for oil, gas or mining concessions, or physical delivery of such commodities.

The joint venture (JV) – La Sino-Congolaise des Mines (SICOMINES) – brings together the Government of the DRC represented by Gécamines, and the Government of China, represented by the Consortium of Chinese companies, holding a 32 % and 68% stake respectively in the project. The JV is funded by EXIM BANK and focuses on two projects: the construction of infrastructure in the DRC and the development of a mining project in Katanga to ensure the financing of this infrastructure. Total investment amounted to USD 3.25 billion. The agreement has a complex structure, involving multiple significant transactions, and the EITI Report documents considerable misunderstanding of the nature of the project, the terms attached and the benefits for DRC.



The 2010 EITI Report recommended that EITI DRC should intensify its effort to obtain and disclose all figures related to the various transactions associated with the Chinese contract.

Since then, EITI reporting has served as a tool for the public to monitor the execution of the agreement. Subsequent reports have disclosed progress with building the infrastructure foreseen in the agreement, and the value of such work, including estimated completion dates for the various infrastructure projects. It has also enabled tracking expenditures against the agreed investments. To increase public awareness, meetings have been organised for civil society, media, MPs, ministers and other stakeholders to publicly debate the project and learn about the details.



Subnational payments: Senegal

Senegal's 2013 EITI Report shows challenges with record keeping by subnational governments.

In Senegal, mining companies are required to make certain payments directly to local governments in the areas where they operate. These payments include land levies, minimum tax and local company tax. Sometimes companies are also required to contribute to local associations at mine-affected sites, and to an equalisation and support fund. Although the payments are minor – amounting only to USD 3 million in 2013 – they may make an important contribution to local communities. The EITI Report also revealed that the General Directorate of Public Accounting and Treasury is facing challenges in monitoring payments made by companies to local governments because payment records, including the identity of the taxpayer, are all paper based and only available at local government offices.



The 2013 EITI Report recommended that in order to monitor collection of public revenues by local governments, the Ministry of Economy and Finance should consider providing the General Directorate of Public Accounting and Treasury with an online reporting tool that would enable it to monitor, in real time, the transactions that have been effectuated including the identity of the tax payer across the territory.

The government and Senegal's multi-stakeholder group has not yet had an opportunity to follow up on this recommendation.



Financial transactions between the government and state-owned enterprises: **Nigeria**

Nigeria's EITI audits highlight delays and inconsistencies in transfers of money between the state-owned enterprise, the Nigeria National Petroleum Corporation (NNPC), and the government.

Dividend payments:

The 2012 NEITI audit confirmed that NNPC collected USD 2.795 billion in dividends, loan and interest repayments on behalf of the state, but that these have not been remitted into the Federation account as required by law. In the same year, the Auditor General listed NNPC as one of the corporations that is not complying with provision of the Fiscal Responsibility Act.

Given this finding, the 2012 NEITI audit recommended that NNPC should comply with the legal provisions, although NNPC claims that it has Presidential approval to sequester the dividends to fund gas related projects.

In response, the Inter-Ministerial Task Team (IMTT), which has the mandate to consider and implement NEITI recommendations, has alerted the government to the need to ensure that NNPC pays the funds into the Federation account. The government is looking into the evidence of dividend payments received by NNPC, and amounts transferred to the Federation account.

Sale of government crude:

NEITI audits have confirmed that although NNPC ought to pay for domestic crude allocation within 90 days, it does not do so. This has led to a build-up of unpaid dues by NNPC amounting to approx. USD 3.5 billion as of December 2012. According to NNPC, the amount represented the value of NNPC operating costs, and that was therefore used to cover these.

In light of these findings, the NEITI audit recommended that NNPC should promptly pay debts to improve cash flows to the federation.

Responding to this recommendation, NEITI reports that a monitoring framework has been developed jointly by Office of the Accountant General and NNPC to ensure that payments are made by NNPC when due.



Auditing and assurance practices: Iraq

Iraq's EITI Reports show that there is a need to update national accounting standards to bring them in line with industry practice.

Iraq's national oil companies are audited by the Iraqi Board of Supreme Audit (BSA) based on local Iraqi accounting standards. When originally developed in the 1980s, these standards were based on International Accounting Standards (IAS). Since then the BSA's standards have been updated, but not in accordance with the IAS. During the course of reconciling differences for the first IEITI Report, the Independent Administrator found that differences in the accounting standards created an "understanding gap between national oil companies as compared with the industry practice".



All of Iraq EITI's reports recommend that "National Oil Companies should be audited in accordance with International Accounting Standards and International Financial Reporting Standards".

The EITI reports also recommend that buyers provide their audited financial statements yearly to the state's oil marketing company, SOMO, to ensure that these are in fact available upon request. The Government of Iraq has not yet implemented these recommendations.



Distribution of revenues: Chad

Chad's 2007-2009 EITI Report identified major gaps in the monitoring of payments by oil companies to the state treasury account.

Chad agreed with its creditors for the Chad-Cameroon pipeline that all direct and indirect government revenues from oil and gas companies would transit through an account held at Citibank in London. After the international creditors were paid, the remaining revenues were moved to the government's treasury account. The 2007-2009 EITI Report found that there has not been any record keeping systems in the country monitoring the flow of oil revenues from companies to these government accounts, and it was not possible to report on company payments made into the London transit account. This lack of oversight represented a significant risk of corruption and mismanagement as the government was not able to monitor the extent to which companies paid what they were supposed to pay in accordance with their contractual obligations.

The 2007-2009 EITI Report recommended that relevant ministries should improve the monitoring of extractive revenues, particularly from the oil sector.



To follow up on this recommendation, the government has taken several actions to improve monitoring of oil payments, such as:


- The establishment of a revenue-tracking unit at the Treasury with a robust mechanism for recording and monitoring payments from all oil and gas companies.
- The launch of a project to computerise the record keeping system for government revenues and expenditures to ensure real-time monitoring of the budget. This has also led to improvements in the record keeping and audit system at the customs office to ensure that customs duties are correctly declared, assessed and paid in a timely fashion.



Subnational transfers: Philippines

The Philippines' 2012 EITI Report found that local governments were not able to quantify how much they receive from the extractive companies.

In the Philippines, local governments are entitled to receive a 40% share of three key revenue streams collected by the central government: royalty income from mineral reservations, energy resources production, and mining taxes. The 2012 EITI Report found that the central revenue collection agencies were not able to provide information on the contribution of each payment stream from the mining sector, but lumped these transfers together with other payments before distributing them to local governments. This limited the ability of local governments to assess the value, impact and desirability of mining activity in their area.



The 2012 EITI report recommended that the relevant government agencies and the Department of Budget and Management should monitor and report on such transfers, disaggregated by local government and revenue streams.

To follow up on this recommendation, the government agencies, coordinated by the Cabinet-level Mining Industry Coordinating Council (MICC), have taken actions to ensure disclosure of information about the share of revenues that local governments are entitled to:

- The Department of Budget and Management has committed to disclose disaggregated information to local governments to enable local governments to see how much they are receiving from each company.
- Rules for streamlined disbursement of local government funds starting with the 2016 Budget should both quicken disbursements and improve local governments' oversight and planning capacity.



Revenue management and expenditure: Ghana

Ghana's 2004-2011 EITI mining reports documented misapplication of extractive revenue by local authorities and a lack of proper accounting and reporting on the use of these funds.

In Ghana, 20% of the revenues from the extractive sector are earmarked for sharing between various national regulatory and oversight bodies, the local government authorities (District and Municipal Assemblies), the traditional land-owning authorities and other communities which are impacted by mining activities. The EITI Report identified that the amount of payments from the government to the regional Offices of the Administrator of Stool Lands (OASL) and local governments were inaccurate: The actual payments by OASL to District and Municipal Assemblies were often smaller than they should have been. The report also found that irregular transfers made budgeting challenging, as the OASL did not always forward the full amount due to districts and municipalities and payments were made in instalments, which made planning and budgeting difficult for the District Assemblies. In addition, it appeared that there was a misapplication of funds by local authorities, as much of the revenue was spent on recurrent expenditures such as waste management, purchase of fuel and vehicles instead of economic development projects.

In light of these findings, the Ghana 2004-2011 EITI Report recommended that:



- **The revenue authority should regulate the timeliness of royalty transfers from companies.**
- **Transfer of royalty from government to District Assemblies should be made in full and not in tranches.**
- **Monthly royalty payments should be regularized for efficient calculation of royalty based on production.**
- **Guidelines for the utilisation of royalty receipts by District Assemblies should be implemented to avoid recurring expenditure.**

To follow up on this recommendation, the Government of Ghana and the multi-stakeholder group have taken several actions to ensure improved management of the local government funds from extractives. The OASL have ensured that the correct amounts of mining royalties are passed on to districts and municipalities; District Assemblies have established dedicated bank accounts for the revenues being transferred from central government; and the Minerals Commission has developed policy guidelines for the use of mineral revenues at the subnational level. The guidelines were developed alongside tracking mechanisms to ensure that the guidelines are being followed.



Quasi-fiscal expenditures: Nigeria

NEITI audits have over the years provided insights to how the state-owned enterprise (SOE) has funded fuel subsidies, paid military expenses and built infrastructure.

Quasi-fiscal expenditures by SOEs include arrangements whereby SOEs are required to undertake public social expenditure such as payments for social services, public infrastructure, fuel subsidies, national debt servicing, etc. without explicit budget support. NEITI audits have revealed that the Nigeria National Petroleum Corporation (NNPC) makes extensive quasi-fiscal expenditures. For example, the 2009-2011 NEITI audit documents subsidy payments claimed by NNPC from 2006-2011 amounting to USD 10 million. While subsidies are normally claimed from the Petroleum Support Fund (PSF), the report revealed that NNPC deducts these subsidy payments from its domestic crude sales proceeds before it transfers the balance to the Federation Account. Moreover, subsidy payments claimed by NNPC increased by 186% between 2009 and 2011 alone.

The NEITI audit also identifies several types of other quasi-fiscal spending. According to the report, NNPC spent USD 1.73 billion from the cash-call account on non-cash call items such as security payments (USD 600 million), overhead payments (USD 486 million) and the expansion of the Escravos Lagos pipeline (USD 646 million). This means that NNPC is using funds that are earmarked for joint venture cash calls to cover other expenses. This spending has reduced the amount available for funding joint venture operations, with the possible implication of NNPC having to seek alternative revenue to fund cash-call shortfalls.



Given this finding, the 2009-2011 NEITI audit recommended that the Federal Government should review the deduction of subsidy claims from the proceeds of domestic crude by NNPC to align them with the procedures applicable to other marketers who draw their subsidy claims from the Petroleum Support Fund. With regards to the non-cash call items, the audit recommended that “This practice should be discouraged. NNPC should apply funds meant for cash calls strictly for JV cash call operations”. Following up on this, the Inter-Ministerial Task Team (IMTT), which has the mandate to consider and implement NEITI recommendations, has requested NNPC to provide the formal approval to deduct subsidy claims. NNPC has not yet been able to provide any documents from the National Assembly authorizing such deductions. According to NEITI, the practice of deduction continues pending the resolution of the Petroleum Products Pricing Regulatory Agency Act and the NNPC Act.



Social payments: Cameroon

Cameroon's 2013 EITI Report illustrates challenges in monitoring companies' social obligations.

In Cameroon, some extractive companies have a contractual obligation to provide social expenditures related to their extractive projects. These include payments for infrastructure, health, schools, roads and other support to local communities. Several companies also make voluntary Corporate Social Responsibility payments.

The analysis of the 2012 and 2013 EITI Reports shows a significant variation in the amounts of mandatory social expenditures. In the oil sector, mandatory social expenditures increased by 606% from 2012 to 2013. In the oil transportation sector, mandatory social expenditures decreased by 100% in the same period, while mining companies only make voluntary social expenditures. The EITI Report found that there is no entity that is currently responsible for monitoring compliance with the legal or contractual social obligations, nor are there any mechanisms for accounting and monitoring of social payments. According to the report, this situation prevents tracking of social expenditures and is likely to limit the impact of these payments on local populations.



The 2013 EITI Report recommended that the government should consider establishing a mechanism to monitor extractive companies' compliance with social and environmental obligations, and to trace the execution of social expenditures with a view to maximize the impact on local populations. The report was published in December 2013. The government and Cameroon's multi-stakeholder group have not yet had the opportunity to consider the recommendation.




Contribution to the economy: Afghanistan

Afghanistan 2012-13 EITI Report provides insights about the artisanal and small-scale mining sector and suggests that there is unclear information about its actual contribution to the economy.

There is very little information on artisanal and small-scale mining (ASM) in Afghanistan, an industry which by some estimates is thought to employ some 50,000 miners directly and up to 450,000 Afghans indirectly. Afghanistan's 2012-13 EITI Report includes research into the sector which suggests that there is also much confusion as to the sector's actual contribution to the economy.

The report notes that it is necessary to determine how much revenue the government is collecting from the ASM sector. Since the government is collecting revenue from the ASM sector and products are being exported which are liable to taxes or fees, information on the sector contribution would be of interest for the government agencies managing the mining sector. Among other things, the report notes that lapis lazuli mines in Badakhshan contributed with some USD 630,000 in tax payments in 2014, or approximately the same amount collected by the Customs office of the Ministry of Finance for the whole mining sector in 2012.



The 2012-13 EITI Report recommended that future EITI reporting provides more information on the ASM sector and its integration into the state government.

The report further recommends that the Ministry of Mines and Petroleum, the Ministry of Finance and Afghanistan EITI should examine the identified revenue flows to the government from ASM. The report was recently published and the government and the MSG have not yet had an opportunity to consider the recommendation.

EITI Requirements on recommendations

A key objective of EITI implementation is to bring improvements to natural resource governance in EITI member countries. To this end, the EITI Standard gives the Independent Administrator, the firm appointed to produce the EITI Report, a mandate to make recommendations based on EITI reporting. This includes recommendations aimed at improving auditing systems and reforms needed to bring them in line with international standards, as well as recommendations for wider extractive sector reform related to strengthening the impact of EITI implementation. In some countries, the multi-stakeholder group overseeing implementation has taken an active role in supporting the Independent Administrator with developing recommendations, or has developed their own recommendations complementing those from the Independent Administrator.

Once recommendations have been issued, discussion and follow up by the government and other stakeholders is key to ensure that any issues in the extractive sector are addressed. The EITI Standard requires that the government and the multi-stakeholder group take steps to act upon lessons learnt and considers the recommendations resulting from EITI Reports, including documenting any activities to follow-up on the recommendations.

For more information, see the EITI Standard, Requirements 7.3 and 7.4: eti.org/document/standard

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The EITI (Extractive Industries Transparency Initiative) is a global standard that improves transparency and accountable governance of oil, gas and mineral resources.

The standard is implemented by governments, in collaboration with companies and civil society. Countries implementing the EITI disclose information on issues such as tax payments, licenses, contracts, production and national oil companies.



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