Extractive Industries Transparency Initiative

Source book

March 2005

The Source book was produced by the International EITI Secretariat in the UK Department for International Development (DFID). The Source book will be revised in the light of further experience. Additional information is available from DFID via eiti@dfid.gov.uk and on the EITI website, www.eitransparency.org.

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Introduction

What is EITI?

In many countries, money from oil, gas and mining is associated with poverty, conflict and corruption. Commonly referred to as the "resource curse", this is often driven by a lack of transparency and accountability around the payments that companies are making to governments, and the revenues that governments are receiving from those companies. The Extractive Industries Transparency Initiative (EITI) seeks to create that missing transparency and accountability. It is a voluntary initiative, supported by a coalition of companies, governments, investors and civil society organisations. Alongside other efforts to improve transparency in government budget practice, the EITI begins a process whereby citizens can hold their governments to account for the use of those revenues.

Transparency and development: the case of São Tomé e Principe
São Tomé e Principe is one of the newest oil producers in Africa. Many of the population currently live in poverty but the government has recognised that – if transparently managed – oil has the potential to make a real difference to people's lives. In December 2004, President Fradique de Menezes signed a law governing the receipt, investment and use of oil payments to best promote the economic and social progress of the country. The law provides public access to information on all payments into the fund. At the signing, the President said, "Nothing will be hidden, nothing will be wasted."

This source book

Drawing on the experiences gathered during the EITI pilot phase, this source book is an illustrative guide to assist countries wishing to implement the initiative, and companies and other stakeholders wishing to support implementation.

Chapter 1 gives a brief description of the development of the EITI from the launch at the World Summit for Sustainable Development in 2002, through the pilot phase (June 2003 – March 2005) until the present implementation phase (March 2005 onwards). It sets out the EITI Principles and Criteria which are the core of EITI implementation for all participating countries.

Chapter 2 provides examples of actions that countries have taken during the pilot phase and which are both consistent with the EITI Principles and Criteria and reflect country-specific circumstances.

Chapter 3 contains similar examples for companies that are supporting EITI implementation.

Chapter 1
EITI Principles and Criteria

EITI in context

By encouraging greater transparency and accountability in countries dependent on the revenues from oil, gas and mining, the potential negative impacts of mismanaged revenues can be mitigated, and these revenues can instead become an important engine for long-term economic growth that contributes to sustainable development and poverty reduction.

What is a resource-rich country?

The International Monetary Fund (IMF) draft *Guide on Resource Revenue Transparency* (December 2004) defines countries that are 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% during the previous three years; or (ii) an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25%.during the previous three years.

Resource-rich countries, extractive industry companies and the international community have a common interest in supporting efforts to increase transparency and accountability. Many countries have already made significant progress in this area. The international community supports these efforts. The G8 countries issued a *Declaration on Fighting Corruption and Improving Transparency* at Evian in 2003. At Sea Island in 2004 *Transparency Compacts* were agreed with four countries. The IMF has promoted fiscal transparency in member countries via the *Code of Good Practices on Fiscal Transparency* and the associated manual, while implementation of the code is monitored through the production of *Reports on the Observance of Standards and Codes* (ROSCs). Both the IMF and the World Bank promote more effective resource revenue management through policy advice, policy-based lending, project lending and technical assistance.

As a complement to these efforts to improve governance, the EITI was launched by Tony Blair in September 2002. The EITI provides a good entry point for broader work and discussion on revenue management.

From its inception, the EITI has enjoyed wide international support but the focus for the initiative is at the national level. Country ownership of EITI and company participation in the initiative provides a domestic and international signal of a commitment to high standards of transparency and accountability in public life, government operations and in business.

Benefits for implementing countries are mainly realised as part of, or as an entry point to, broader efforts to improve governance. Improved governance of the resource revenues will allow better management of those resources and should promote greater economic and political stability. This, in turn, can help to prevent conflict based around the oil, mining and gas sectors. Implementation will also contribute to an improved investment climate by providing a clear signal to investors and the international financial institutions that the government is committed to greater transparency.

Benefits to companies and investors centre on mitigating political and reputational risks. Political instability caused by opaque governance is a clear threat to investments. In extractive industries, where investments are capital intensive and dependent on long-term stability to generate returns, reducing such instability is beneficial. Transparency can also contribute to a level playing field for companies, and by making public their payments to a government a company can help to demonstrate the contribution that its investment makes to a country.

Benefits to civil society come from increasing the amount of information in the public domain about those revenues that governments manage on behalf of citizens, thereby making governments more accountable.

EITI stakeholders

At the national level, the EITI is a government-led initiative. However, the EITI Principles and Criteria call for the active involvement of other partners from wider society. Broad local leadership and participation are essential, and active public engagement from a range of stakeholders will be required.

A stakeholder is defined as an individual, community, group or organisation with an interest in the outcome of the EITI, including both those who are affected by it (positively or negatively) and those who are able to influence it (in a positive or negative way). Stakeholders will be drawn from within state institutions, the private sector and civil society. There are both key and wider stakeholders, defined by the level of their interest and degree of influence over implementation. The grouping will vary from country to country, yet similar actors are likely to be involved in all countries.

Who might EITI stakeholders include?

- Public institutions
  - Executive
    - Agencies responsible for management of natural resources
    - Agencies responsible for revenue collection and management
    - Agencies responsible for economic development, private-sector regulation and public administration
  - Legislature
    - Budgetary and/or natural resource committees
    - Sub-national levels of government
  - Supreme audit institutions
- Private sector
  - Companies operating in the country
    - Domestic state-owned companies
    - International state-owned companies
    - Domestic private companies
    - International private companies
  - Investors
  - Business associations
- Civil society
  - Community-based organisations
  - National non-governmental organisations (NGOs)
  - International NGOs and their local affiliates
  - Media, trades unions, academic and research institutions, and faith-based organisations
- EITI implementers
  - Administrators, auditors and/or disclosure agencies
- International partners
  - International institutions (IMF, World Bank, United Nations)
  - Donors

EITI Principles and Criteria

A diverse group of countries, companies and civil society organisations attended the Lancaster House Conference in London (2003) hosted by the UK Government. They agreed a Statement of Principles to increase transparency over payments and revenues in the extractives sector. These became known as the EITI Principles and are the cornerstone of the initiative.

After the EITI Lancaster House Conference, the EITI continued to gather support at the international level from governments, major multinational companies, institutional investors representing nearly $7 trillion of assets under management, non-governmental organisations and international institutions.

More importantly, a number of countries – namely Azerbaijan, the Republic of Congo, Ghana, the Kyrgyz Republic, Nigeria, São Tomé e Principe, Timor Leste and Trinidad and Tobago – began to interpret and implement the Principles thus playing a pivotal role in shaping the EITI. This was an important pilot phase for the EITI. Working with the Principles, implementing countries have placed the EITI within the context of other domestic initiatives, formed work plans and put in place procedures towards a country-owned process.

During this phase the diversity of experiences in implementing the EITI has added to the richness of the initiative. It has also contributed to a wider debate regarding the need for clear guidance for implementation which still respects the voluntary nature of the initiative and country-specific implementation.

Moving beyond the pilot phase and widening the EITI to include other resource-rich countries, there is a need for a mutually agreed set of EITI Criteria for all countries wishing to implement the EITI.

At the EITI London Conference 2005, participants in the EITI endorsed the criteria but also encouraged countries to go beyond these minimum requirements where possible. They recognised value in capturing lessons learned during the pilot phase to help implementing countries and supporting companies. They welcomed the guidance on best practice set out in the IMF *Code of Good Practices on Fiscal Transparency* and the *Manual on Fiscal Transparency*. Participants also welcomed the EITI Source book as an additional, illustrative guide to implementation.

The EITI Principles

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 recognise that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
4. We recognise 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 recognise that achievement of greater transparency must be set in the context of respect for contracts and laws.
7. We recognise 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.
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 to 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 their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors and non-governmental organisations.

The EITI Criteria

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 towards 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.

Chapter 2
Illustrative guidance for resource-rich countries

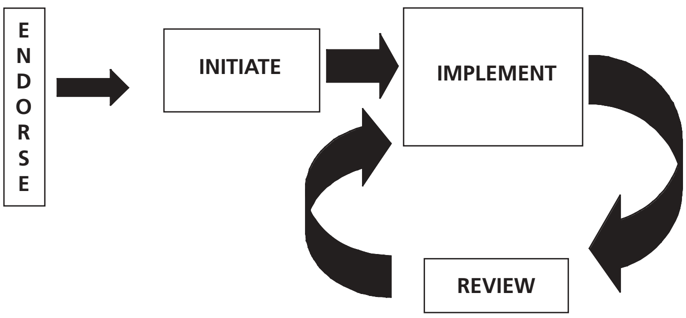
Overview

Any country with significant extractive industries is encouraged to increase the transparency of its management of oil, gas and mining revenues. Resource-rich countries are further encouraged to move beyond endorsement of the EITI principles and implement the initiative itself. Implementation of EITI will require both political and financial commitments from the government to ensure that implementation is sustainable. Technical and financial support will also be available to support initial implementation from the International EITI Secretariat, international organisations and development agencies.

Having chosen to participate in EITI every country and sector will need to develop its own implementation model. Nevertheless, some general lessons have emerged from experience in the pilot phase.

Stages of implementation

As the diagram below shows, the three main stages of EITI are initiation, implementation and review. Each stage represents a key milestone in delivery of revenue transparency.



Having endorsed EITI, a country then moves – in consultation with key stakeholders – towards **initiation**, by establishing governance structures for decision-making, outlining a work plan, and arranging for capacity building and sustainable financing of programmes. The next stage, **implementation**, forms the core of EITI. Government, companies and civil society organisations all play an important role in disclosing, disseminating and discussing the reported revenues. Achieving consensus from this process is valuable in building trust. The third stage consists of a **review** of the process of implementation. Here key concerns and opportunities for improvement are fed back to inform decisions and future actions.

Initiation: Has consensus been reached on the development and planning of the initiative?

In this stage the balance of responsibility for progress lies with the government. It will need to ensure that governance structures and processes, staff and financing mechanisms are in place. These should not normally require extraordinary actions or costs. The government should make every effort to engage with civil society organisations and industry from an early stage. A country will have initiated the EITI when the key EITI stakeholders have collectively agreed the process objectives, achievements and future work plan of a country wishing to implement the EITI.

Implementation: Are extractive industry payments and revenues published in a credible and comprehensible manner?

A country will be implementing the EITI when it can demonstrate that – with the full engagement of key stakeholders – there is a regular cycle of disclosure, dissemination and discussion on extractive industry revenues. All implementing countries will need to do this in line with the EITI Principles and Criteria; although the exact model of implementation in a particular country will reflect the cultural and legal frameworks of that country.

Review: Are there arrangements for annual stakeholder feedback on the process of implementation?

EITI implementation will need to be improved over time in the light of experience. Governments must enable this process by providing the necessary conditions and structures to ensure that feedback informs future plans. Civil society organisations will need to work closely with the government and industry to provide complementary oversight of the process. A review of EITI implementation may, for example, lead to redesigning the EITI decision-making process, changing stakeholder representatives and adjusting capacity building programmes.

Summary of suggested and additional actions

The table below provides a guide for countries implementing the EITI Criteria. It uses lessons learned from implementation in Nigeria, Azerbaijan, Ghana and the Kyrgyz Republic.

Suggested actions (in dark blue) are those considered important for effective implementation whilst **additional actions** (in blue) refer to further activities that may be taken to improve implementation.

Suggested actions	Additional actions
Initiation	
A. Sign-up	
1. Has the government identified the key EITI stakeholders?	**A1.** Has the government undertaken a formal stakeholder assessment and identified the drivers, feasibility and impact of implementing EITI?
2. Has the government issued an unequivocal, public statement of its intention to implement EITI?	
3. Has the government reviewed the legal framework to identify any potential obstacles to EITI implementation?	**A3.** Has the government published existing revenue information on its website?

B. Set-up

4. Has the government appointed an individual to lead on EITI implementation? Has this appointment been publicly announced?	
5. Has the government committed senior staff from relevant ministries and agencies to participate on EITI decision-making bodies?	
6. Has the government committed to high-level government leadership on EITI?	
7. Has the government established a clearly defined governance structure for EITI decision-making?	
8. Has the government confirmed a work plan for EITI Implementation?	
9. Does membership on formal committees reflect a balance of stakeholder interests?	**A9.** Is there evidence of high-level corporate and civil society representation on EITI committees?
9a. Has the government identified and established outreach mechanisms for a wider selection of stakeholders?	
10. Has the government identified and established sources of sustainable financing for EITI implementation?	**A10.** Has the government identified appropriate seed support from international agencies?
11. Have efforts been made by the government to develop EITI awareness among government agencies and other key and wider EITI stakeholders?	

C. Process development

12. Are most key EITI stakeholders content with the process of designing the reporting templates?	**A12.** Have arrangements been made to assist stakeholders in understanding and completing the reporting templates?
13. Has an administrator been appointed who is considered by most key EITI stakeholders to be trusted and impartial?	
14. Are arrangements in place to provide for sustainable financing for the role of the administrator?	
15. Have capacity needs among key EITI stakeholders been identified?	
16. Are arrangements in place to provide for formal and informal capacity building programmes prior to disclosure?	

Implementation

D. Disclosure and publication

17. What will be disclosed, who will disclose and how?	
17a. Which benefit streams will be reported?	**A17a.** Are there additional benefit streams which may be reported on a voluntary basis?
17b. How will it be ensured that all companies report?	
17c. How will governments and companies report?	

18. Are the submitted reports on payments and revenues credible?	
18a. Where such audits do not already exist, has an audit company or companies been identified to conduct a credible and independent audit of payments and revenues?	
19. How will the administrator prepare the EITI report?	**A19a.** Within the reporting process, has an acceptable margin of error been identified?
	A19b. Are arrangements in place to provide for an independent audit of the reported figures if requested by most EITI stakeholders?
20. How will the EITI Report be disclosed?	
20a. Should publication of the EITI Report be on an aggregated or disaggregated basis?	

E. Public dissemination and discussion

21. Is the EITI Report accessible and understandable?	
21a. Are procedures in place to disseminate the results widely?	
22. Has there been a discussion of the results of the reported revenues and payments that involves key stakeholders?	**A22.** Has the discussion been extended to include wider stakeholders?

Review

F. Review

23. Are there arrangements in place to monitor and evaluate EITI?	**A23a.** Is there a formal independent assessment mechanism?
	A23b. Have lessons learned been shared with other countries and stakeholders?
24. Has the design of decision-making and other processes been influenced by feedback mechanisms?	

Initiation

A. Sign-up

Suggested action 1: Has the government identified the key EITI stakeholders?

The EITI Principles recognise that all stakeholders – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors and non-governmental organisations – have important and relevant contributions to make to implementation. It is important that the key and wider EITI stakeholders are identified right from the start of the process. This will vary from country to country but should include all those whose engagement is necessary for the successful implementation of the initiative.

Early identification of these stakeholders, and engagement with them, is essential for effective implementation. The levels of commitment, ownership and credibility that a country attaches to the EITI will be strongly influenced by the extent to which key stakeholders are content with the benefits and timeliness of the initiative.

Case study 1
In Nigeria the 28 members of the National Stakeholders Working Group (NSWG) represent the identified key stakeholders. These are civil society (2), media (1), national assembly (2), state assemblies (2), indigenous and multinational oil companies (3), organised private sector (4) and the federal government (14)

Additional action A1: Has the government undertaken a formal stakeholder assessment and identified the drivers, feasibility and impact of implementing the EITI?

In some countries the number of stakeholders will be relatively few and easy to identify. However, in many countries the size and complexity of the sector has led to a proliferation of interested parties. In these cases, a fuller, formal analysis of these parties and of the drivers for EITI implementation will help to inform a country's decision on how to implement the EITI.

Suggested action 2: Has the government issued an unequivocal, public statement of its intention to implement the EITI?

In order to begin the process of raising public awareness, the government should make an unequivocal public statement – including in the local media – of its commitment to the principles of the EITI and to the implementation of the EITI.

The statement of commitment to implementation goes beyond endorsement of the EITI and should also indicate the measures that the government has taken or will take within a reasonable (and defined) timeframe to meet the EITI Criteria. The statement should be by the Head of State or an appropriately delegated government representative.

It would be worthwhile for the government to establish a national EITI website onto which it would place this statement. A copy of the statement should be sent to the International EITI Secretariat for inclusion on its website.

Case study 2
In the Kyrgyz Republic specific legislation is required to allow for the independent audit of state companies.
In Azerbaijan no legislative changes are required, but a Memorandum of Understanding (MOU) between the various EITI stakeholders has legal force.

Case study 3
In Nigeria an EITI Bill complements proposed legislation on financial responsibility and freedom of information.

Suggested action 3: Has the government reviewed the legal framework to identify any potential obstacles to EITI implementation?

EITI should fit comfortably within the legal framework of a well-functioning revenue administration alongside fiscal control mechanisms. As such, EITI should not involve extraordinary demands on the government.

However, in some cases it may be necessary to enshrine EITI legally; create new transparency, revenue and industry policy and legislation; or make changes to existing EITI related policies and legislation. If additional legal measures are required, a government should first review its existing legislation to ensure clarity and consistency. Governments could consider ensuring that transparency in the management of extractive industries revenues is reflected in anti-corruption laws or complimented by laws covering anti-bribery measures or legal protection for government officials who raise public interest concerns.

Additional action A3: Has the government published existing revenue information on its website?

However incomplete, publication of available revenue – preferably from the extractive sector – would serve as a baseline for judging progress in improving data quality. The government should ideally place this information on its website with a clear link to its EITI national website. This early reporting of these extractive industry revenues will provide tangible evidence of the government's commitment to transparency.

B. Set-up

Suggested action 4: Has the government appointed an individual to lead on EITI implementation? Has this appointment been publicly announced?

The government should appoint an individual to lead on EITI implementation who is sufficiently senior and whom all stakeholders trust. EITI implementation typically requires the collaboration of several ministries and agencies so the individual will need to be empowered to manage this process.

To date these individuals have been situated in relevant ministries or agencies. The individual may need to be supported by a deputy and staff, although the creation of a special unit may not be necessary. In all cases there should be clear responsibilities for the coordinating role and freedom to carry these out without undue political influence. If a national EITI website is established, the names and contact details of the individual should be readily available on the site to ensure the wider accountability of the individual and government.

Case study 4
In Ghana a detailed, publicly available remit has been developed for the EITI Secretariat. This is a special unit set up at the Ministry of Mines to form the central coordination point.

Suggested action 5: Has the government committed senior staff from relevant ministries and agencies to participate on EITI decision-making bodies?

It is recognised that senior staff time is constrained. However, the EITI will require the collaboration of multiple government ministries and agencies both at the central and regional levels. It is therefore important that the government confirm representation on formal committees of a dedicated group of senior staff.

Case study 5
In the Kyrgyz Republic, membership on the EITI committee includes senior advisers to the Prime Minister as well as the highest-level officials from the ministries of Finance, Industry & Trade, Foreign Affairs and the Legal Department.

Suggested action 6: Has the government committed to high-level government leadership on the EITI?

Sustained high-level political leadership has often been helpful to maintain the momentum of the EITI and resolve issues as they arise during implementation.

Case study 6
In the Kyrgyz Republic, the Prime Minister chairs the EITI Advisory Committee and the Deputy Finance Minister chairs the EITI Implementation Committee and leads the initiative as a whole.

Case study 7
In Ghana, the 17-person Implementation Committee (IC) is made up of 12 government representatives, an industry association representing the corporations, donors and a civil society group. In turn, the IC convenes a 'round-table' to discuss the various perspectives on EITI and pass back comments to the IC.

Suggested action 7: Has the government established a clearly defined governance structure for EITI decision-making?

The EITI is an initiative that requires decisions to be made in consultation with a number of different stakeholders, organisations, sector representatives and partners. Whatever governance structure is chosen for EITI implementation, the government must ensure that decision-making responsibilities and roles are clearly defined and that consultation and decision-making are well coordinated.

Suggested action 8: Has the government confirmed a work plan for EITI implementation?

As a sign of its commitment to implement the EITI, it is important that the government agrees a work plan for EITI implementation with its key EITI stakeholders and makes this information publicly available. A work plan for continued implementation should cover, for example, capacity building of government, industry and local NGOs, and steps to help reconciliation of payments and revenues, and measurement of achievement against targets for each actor with agreed costs and timelines.

It is preferable that this work plan is placed on the EITI national website so that all stakeholders are aware in advance of the actions and procedures planned, particularly those regarding capacity building, reporting and dissemination of the results.

Case study 8
In Azerbaijan, a Memorandum of Understanding has been signed between the stakeholders and outlines their rights and obligations. It has been placed on the EITI national website http://www.oilfund.az/doc/memorandum_en.doc

Suggested action 9: Does membership on formal committees reflect a balance of stakeholder interests?

Since the number of stakeholders is likely to be large and membership of a coordination committee will necessarily be limited, a pragmatic decision needs to be made about membership – reflecting the diversity, inclusivity and representation of stakeholders.

Additional action A9: Is there evidence of high-level corporate and civil society representation on EITI committees?

The seniority of civil society and corporate representatives on EITI committees has differed from country to country, reflecting the different stakeholder motivations and anticipated outcomes from implementation. It is generally felt, however, that the effectiveness of the committees is enhanced by high-level representation from civil society and the private sector.

In addition to representation being of an appropriate level, it is also helpful if membership is consistent or, where this is not possible, organisations take the responsibility to ensure that new representatives are fully briefed by their organisations.

Case study 9
Nigeria sought a broad representation on the stakeholder working group and therefore expanded initial membership to include the media, the unions and a lawyer. Members are expected to demonstrate the necessary credibility and credentials from their constituencies.

Suggested action 9a: Has the government identified and established outreach mechanisms for a wider selection of stakeholders?

Governance arrangements will need to ensure that all the stakeholders identified during *sign-up* have a channel for representing their interests within EITI development. In particular, it will be important to ensure that outreach includes smaller companies and civil society organisations; and that outreach extends beyond the capital city to include regionally based organisations.

As previously noted, it would be worthwhile for the government to establish a national EITI website. All information on the organisation of the EITI process, governance and outreach could be published on the website.

Case study 10
Some stakeholders feel that the Implementation Committee in Ghana should widen to incorporate representatives from smaller companies. In the interest of engaging this group, it may be necessary to seek their representation via an industry association.

Suggested action 10: Has the government identified and established sources of sustainable financing for EITI implementation?

In order to ensure sustainability of the implementation process over time, the government should identify as soon as possible a sustainable domestic source of funding. One option is for the government to fund EITI costs from oil or mineral revenues possibly after a defined start-up period of, for example, the first three reporting cycles.

Case study 11
In Nigeria a budget line to support EITI implementation has been proposed in the EITI Bill. The Kyrgyz Republic has used a small portion of the proceeds from the sale of a government stake in a mine to pay for the EITI audit of the state-owned mining company. In Azerbaijan, the corporations and government will pay for the costs in alternation.

Additional action A10: Has the government identified appropriate seed support from international agencies?

International organisations and some countries have committed to provide appropriate financial, technical or diplomatic support to EITI countries in the early stages of EITI development. This external support might include the facilitation of meetings between EITI partners or providing technical consultants to support implementation. Support must not undermine ownership of the process by the host government and consideration must be given to how support is sustained beyond initial provision.

Case study 12
In Ghana, DFID supported a major EITI launch conference that:
- Raised and extended the EITI profile and position within the country.
- Shared information on the current status of EITI in other pilot countries.
- Established the current status of EITI implementation in the country.
- Identified opportunities and constraints to EITI progress.

Suggested action 11: Have efforts been made by the government to develop EITI awareness among government agencies and other key and wider EITI stakeholders?

As the EITI is a government-owned process, it is important that the government ensures EITI awareness first within the relevant governmental bodies (for example, the oil or mining ministries, finance ministry or supreme audit institution). Relevant government agencies should ensure that natural resource revenue issues are amply covered in Poverty Reduction Strategy Papers and in the discussions and consultations feeding into those papers. Simultaneously, the government should initiate a sustainable programme of capacity building among key EITI stakeholders. Awareness of issues around extractive industries' revenues may be limited or contain misperceptions in many countries (see Case study 13). In countries currently implementing the EITI, governments have undertaken a range of awareness and capacity-building programmes for a broader set of stakeholders. For example, this could include involving the media in the launch of the EITI, developing a public communication strategy for the relevant ministry or integrating an understanding of the significance of resource revenues and government accountability in the state school curriculum.

Case study 13
During a stakeholder perception survey carried out in Nigeria respondents (including oil workers, business people and teachers), were asked, 'Who gets what from a barrel of oil?' The general opinion was that if a barrel of oil cost US$30, it would cost about US$5 to produce, the government would get US$5 and the remaining US$20 would go to the corporation.

C. Process development

Suggested action 12: Are most key EITI stakeholders content with the process of designing the reporting templates?

Examples of reporting templates (samples of which are attached as annexes to the Source book) have been developed for the disclosure of revenues under the EITI. During the implementation of the EITI, countries will be expected to revise and expand these templates to reflect country- and sector-specific situations and requirements.

In some countries, an individual or organisation may be tasked with coordinating the changes to the templates. In such cases it is important that they are not only technically competent but also trusted by and accessible to key stakeholders.

Additional action A12: Have arrangements been made to assist stakeholders in understanding and completing the reporting templates?

Discussion and review of the scope of reporting templates has sometimes been restricted by a lack of technical capabilities to interpret the detail of different oil and mining revenue streams and how they are best accounted.

Suggested action 13: Has an administrator been appointed who is considered by most key EITI stakeholders to be trusted and impartial?

It will be necessary to appoint an administrator to collect and evaluate the revenue data provided by companies and government. It is essential that there is stakeholder trust in the administrator's impartiality and competency. The administrator may be a private audit firm, an individual or an existing or specially created official body that is universally regarded as independent of, and immune to influence by, the government.

Conflict of interest, or the perception of conflict of interest, may be an issue. If for example the appointed administrator is an audit company which is already auditing one of the reporting companies, this could be deemed a conflict – as might a relationship with anyone in government who handles revenue streams.

Case study 14
In Azerbaijan, an ad hoc committee consisting of government, company and NGO representatives was formed to run the tendering process and appoint an independent administrator (a role which is being filled by an audit firm) to collate payments and revenue figures.

Suggested action 14: Are arrangements in place to provide for sustainable financing for the role of the administrator?

Depending on the level of detail demanded by stakeholders, collating or auditing revenue data from all relevant government agencies and all extractive industry companies can be quite an elaborate process. This will have cost implications and, even where the initial funding is coming from an external source, it is important that the government identifies a sustainable source of funding from the outset.

Suggested action 15: Have capacity needs among key EITI stakeholders been identified?

Reporting under the EITI should be in an easily understandable manner, which should minimise the amount of capacity building required among the prospective users of the reports. Nevertheless, key EITI stakeholders will need to have an understanding of the processes involved in reporting in order to establish the credibility of the process.

Capacity building should not only be seen in terms of monitoring or auditing skills. Government, civil society organisations and, in some cases, industry stakeholders have expressed a need to build their networking, logistical, technical and decision-making capacity to know 'what to look out for' in industry transactions and how to get their point across to government and industry stakeholders.

Case study 15

In Nigeria, capacity-building needs which have been identified to date include:

- Technical capacity building for civil society organisations to perform their current roles more effectively.
- Technical capacity building for reporting entities to complete templates.
- Logistical capacity building for government to streamline systems of execution.
- Network capacity building of government to ensure better coordinated effort.
- Technical capacity building to understand oil and mining industry revenues, and basic fiscal management issues, roles and responsibilities.
- Enhancing decision-making and consensus building skills for NGOs and corporations.

Suggested action 16: Are arrangements in place to provide for formal and informal capacity-building programmes prior to disclosure?

Addressing the identified capacity needs will take time – and should be started as soon as possible. Prior to implementation, appropriate programmes should have been initiated for significant areas of EITI awareness raising and capacity building.

This will enhance the process from the outset as well as being a "quick win" for countries wishing to demonstrate their commitment to implementation. As with the implementation itself it will be important to ensure that sustainable financing has been identified for these programmes.

Case study 16
In Nigeria, 90% of civil society funding to date for capacity building to support EITI implementation has come from international donors. However, civil society organisations understand the need for sustainable sources of income and are keen to receive assistance to develop local financing campaigns.

Implementation

D. Disclosure and publication

Suggested action 17: What will be disclosed, who will disclose, and how?

During *initiation*, the process for developing reporting templates for companies and governments will have been agreed and an administrator identified to produce the EITI report. At the beginning of implementation it will be important to establish the precise scope and nature of disclosure to be included in the reporting templates.

The capacity of all stakeholders will need to have been developed to allow them to engage in this discussion. Although the primary parties are likely to be the government and the companies, it is recommended that every effort be made to engage with all parties.

A decision on the scope of reporting is likely to be made on the basis of the fiscal regime, which in many cases will be the applicable production-sharing contract. If stakeholders consider that certain legitimate costs (for example security, training and infrastructure) also need to be included, these could be detailed in notes to be reported. More generally, the EITI Reports could usefully describe the extent to which costs underlying the benefit streams were the subject of independent audits.

Case study 17
Issues of reporting template scope in Nigeria:
- Are non-technical costs such as security costs included?
- How will derivation fees be reflected in an audit when some companies withhold 3% to pay for required infrastructural development?
- Are the costs paid by corporations in developing schools and health centres, and in paying other salaries, reflected as a 'cost of production' or corporate social investment?

Suggested action 17a: Which benefit streams will be reported?

Benefit streams are defined as being any potential source of economic benefit which a host government receives from an extractive industry. They are not assumed to include indirect economic benefits such as construction of infrastructure or employment of local personnel.

All material benefit streams must be reported. A benefit stream is material if its omission or misstatement could distort the final EITI report.

Case study 18
In Ghana it was agreed that the disclosing organisation would release bi-annual revenue figures. Revenue streams included royalties, corporate tax, pay as you earn (PAYE), Reconstruction Levy and miscellaneous charges. Furthermore, corporate partners have decided to publish their contributions to communities since 2002 – broken down into sectors such as education, health and infrastructure.

It is recommended that a benefit stream be considered to be material if it is:

> Alternative 1: more than A% of the host government's estimated total production value for the reporting period;
>
> Alternative 2: more than B% of the company's estimated total production value in the host country for the reporting period; or
>
> Alternative 3: more than USD C million [or local currency D million].

Benefit streams might include:

Benefit stream	Further description
Host government's production entitlement	This is the host government's share of the total production. This production entitlement can either be transferred directly to the host government or to the national state-owned company. Also, this stream can either be in kind and/or in cash.
National state-owned company production entitlement	This is the national state-owned company's share of the total production. This production entitlement is derived from the national state-owned company's equity interest. This stream can either be in kind and/or in cash.
Profits taxes	Taxes levied on the profits of a company's upstream activities.
Royalties	Royalty arrangements will differ between host government regimes. Royalty arrangements can include a company's obligation to dispose of all production and pay over a proportion of the sales proceeds. On other occasions, the host government has a more direct interest in the underlying production and makes sales arrangements independently of the concession holder. These "royalties" are more akin to a host government's production entitlement.

Benefit stream	Further description
Dividends	Dividends paid to the host government as shareholder of the national state-owned company in respect of shares and any profit distributions in respect of any form of capital other than debt or loan capital.
Bonuses (such as signature, discovery, production)	Payments related to bonuses for and in consideration of: • Awards, grants and transfers of the extraction rights; • Achievement of certain production levels or certain targets; and • Discovery of additional mineral reserves/deposits.
Licence fees, rental fees, entry fees and other considerations for licences and/or concessions	Payments to the host government and/or national state-owned company for: • Receiving and/or commencing exploration and/or for the retention of a licence or concession (licence/concession fees); • Performing exploration work and/or collecting data (entry fees). These are likely to be made in the pre-production phase. • Leasing or renting the concession or licence area.
Other significant benefits to host governments	These benefit streams include tax that is levied on the income, production or profits of companies. These exclude tax that is levied on consumption, such as value-added taxes, personal income taxes or sales taxes.

To achieve full transparency, particular attention will need to be given to the valuing of in-kind benefit streams where significant discrepancies can otherwise occur. For example, the Republic of Congo uses the "fiscal price" (an agreed price per barrel) for converting "costs in dollars" into "costs in barrels" for calculating the profit barrels to be shared under the production-sharing contracts. The use of such a reference price in the reporting templates would have to be accompanied by notes to describe who sold the oil, who benefited from the sale, what prices were obtained and how those prices compare to the reference prices. In addition, the notes could describe how the reference prices compare to accepted international benchmark prices.

Additional action A17a: Are there additional benefit streams which may be reported on a voluntary basis?

There may be benefit streams which are not significant but which companies or host governments wish to report on a voluntary basis. If such benefit streams are identified it will be important to ensure that their reporting does not impact on how the information reported is understood.

Suggested action 17b: How will it be ensured that all companies report?

Governments will need to consider how best to ensure that all companies report in a timely manner and using the agreed reporting templates. Whilst in some countries this may be achieved through voluntary agreements with the companies, in other countries this may require a legal framework to be established. Governments implementing the EITI can be expected to fully exhaust their legal possibilities for compelling companies to cooperate. In addition, they could consider making EITI cooperation a condition for any contract with a new or existing company.

EITI reporting must apply to all extractive industry companies (including international, national, and state-owned companies) operating in that country. An entity should be exempted from reporting only if it can show with a high degree of certainty that the amounts it reports would in any event be immaterial.

Governments may wish to report on the combined benefit stream from such small operators. Where this forms a significant part of the total revenues received, particular care will be required to ensure that the threshold has been set at an appropriate level.

Suggested action 17c: How will governments and companies report?

Agreement on the draft reporting templates will need to address the accounting principles and treatments to be applied to reporting under the EITI to allow comparison of company and host government information.

Differences in the accounting periods, currencies and units can cause legitimate discrepancies between aggregated government revenue figures and aggregated company contribution figures that far exceed normally agreed margins of error. To reduce legitimate discrepancies and delays to the disclosure process it is necessary to standardise these variables through a mutually agreed accounting process.

As additional experience is gathered in implementation it is to be expected that this guidance will be further refined.

Accounting system: As host governments are not usually in a position to estimate accruals for expected receipts from companies for any particular period it is recommended that accounting be completed by all entities on a cash basis.

Since regular reporting by companies will be on an accrual basis, the companies' auditors could be asked to provide a reconciliation statement as part of their reporting. This would reconcile the cash payments made with the reporting in their financial statements.

Reporting currency: Governments and companies will need to agree the reporting currency.

It is recommended that for the mining sector, where most benefit streams are paid in local currency, this is the unit of accounting; and for the oil and gas sector, where the quoted market price is US dollars, that this is the unit of accounting.

However, countries may decide to publish EITI payments and revenues in both the local currency and US dollars – for example, to increase comprehensibility to the local population.

For transactions conducted in other currencies to the unit of account, it is recommended that the monthly or quarterly average exchange rate be used to translate these into the reporting currency.

Accounting period: Most oil, gas and mining companies report internally on a monthly or quarterly basis and externally on an annual basis so agreement will have to be reached concerning which of these time periods is most appropriate for the reporting entities.

EITI reporting should be on at least an annual basis, though in some cases a twice-yearly basis will be more convenient.

Submission of completed reporting templates: It is recommended that companies and government submit their completed templates to the administrator as near to simultaneously as possible to ensure the credibility of the process.

Reporting should also be done in a timely manner. The longer it takes to prepare the reports, the less relevant they will be for policy debates about the reported payments and revenues.

Suggested action 18: Are the submitted reports on payments and revenues credible?

The credibility of the EITI process is dependent on the credibility of the data on payments and revenues submitted to the administrator by the companies and the government.

It is recommended that the process relies as much as possible on existing procedures and institutions, and on international standards. A practical process might include:

- Companies should obtain from their external auditor an opinion that the information they are planning to submit for EITI is consistent with their financial statements. This could be a "special procedures" request attached to the terms of reference of the external audit. These auditors would relate the cash-base submissions by the companies to their accrual-based financial statements. This process should be done in line with appropriate international standards on auditing.

- Similarly the government auditor should be asked to give an opinion on the accuracy of the government's submissions.

Suggested action 18a: Where such audits do not already exist, has an audit company or companies been identified to conduct a credible and independent audit of payments and revenues?

All payments and revenues reported under EITI should have been the subject of credible, independent audit. When companies submit payments data that has been verified by their own independent auditor, no other audit will normally be required. Where such audits have not been done – or the audit is not regarded as credible – then an audit will need to be undertaken. It may be appropriate for the auditor to be appointed following an independent, competitive basis.

Case study 19
In Azerbaijan, the 'Auditor's Remit' sets down procedures for managing discrepancies and inconsistencies that exceed an agreed margin of error:
(a) If there are any inconsistencies, the committee shall supply the audit company with a detailed analysis of the aggregated amount and a breakdown by individual companies.
(b) If this does not resolve the inconsistencies identified, then the audit company will bring the inconsistencies to the attention of the relevant accounting entities who will then be requested to submit supporting documentation for their figures.

Suggested action 19: How will the administrator prepare the EITI report?

The administrator identified during *initiation* will receive the reports of the companies and the government; and will attempt to reconcile the company submissions with the government submissions. This will form the basis of the EITI Report for the implementing country. The EITI Report could be submitted to an external auditor for an opinion.

A procedure should be agreed for addressing any discrepancy or inconsistency found in the EITI Report. If reconciliation requires changes in the submissions these will need to be approved by the company's external auditor or the government auditor. Consideration is required as to what actions will be taken if significant discrepancies remain.

Additional action A19a: Within the reporting process, has an acceptable margin of error been identified?

After agreeing to a standardised reporting process, but before implementation, an acceptable margin of error should be agreed by key stakeholders for any discrepancy that is discovered by the administrator between the contributions made by the extractive industry and the extractive revenues received by the host government.

Given that the early stages of any new programme or initiative are often characterised by a number of errors, some EITI stakeholders argue that the acceptable margin of error in the first report cycle should either be greater or that a non-publishable 'trial' report should be conducted to identify and manage 'legitimate discrepancies' and so avoid unnecessary public controversy.

Additional action A19b: Are arrangements in place to provide for an independent audit of the reported figures if requested by most key EITI stakeholders?

In some countries concerns about the credibility of the existing audits or about the process of reporting may lead stakeholders to request the appointment of an independent auditor to collect and evaluate the payments and revenue data provided by companies and government.

Even where a decision is made not to conduct a second audit of already audited reports this should in no way preclude the administrator from gaining access to the company or government data if that is necessary to reconcile discrepancies in the reports of payments and revenues.

Suggested action 20: How will the EITI Report be disclosed?

Stakeholders will need to agree who will be responsible for the disclosure of the results of EITI implementation. In some cases the administrator may also be responsible for disclosure but to date a different organisation has usually been appointed.

Irrespective of which organisation is appointed to disclose the results, it is important that the person or organisation is considered by most key EITI stakeholders to be trusted and impartial. Furthermore, they should possess the capacity and the capability to disclose the results in an understandable way and disseminate the results in an accessible way to its audience.

Case study 20
The Chamber of Accounts in the Kyrgyz Republic has agreed that the margin of error for discrepancy between the government and industry figures should not exceed 1%.

Case study 21
In Nigeria, in order to build public trust, all parties have agreed that the payments reported under EITI will be the subject of an audit. Agreement has been reached on an auditor selection process and a public tender has been offered for an independent auditor.

Case study 22
In the Kyrgyz Republic disclosure is the responsibility of the Statistical Commission and in Azerbaijan it is the responsibility of the National EITI Commission. In Nigeria, the decision will be made by the National Stakeholder Working Group.

Suggested action 20a: Should publication of the EITI Report be on an aggregated or disaggregated basis?

Stakeholders will need to agree whether company and host government reports should be made publicly available in an aggregated or a disaggregated manner. The final decision will be made by the host government.

Aggregated disclosure would see a single number disclosed for each benefit stream. In this case, particular attention would be required to ensure that the process of aggregation was seen to be trustworthy.

Disaggregated disclosure would see the overall number broken down by company and/or by licence. In this case particular attention would be required to ensure that the disaggregated numbers were comparable and meaningful.

A principle of the EITI is the recognition that achievement of greater transparency must be set in the context of respect for existing contracts and laws. Particular care should be taken to balance the presumption of disclosure under the EITI with the concerns of companies regarding commercial confidentiality.

Case study 23
In Azerbaijan, concerns about company confidentiality clauses have resulted in an aggregated approach being used in the first report cycle.
In the Kyrgyz Republic, the aggregation issue is less prominent because of the dominance of the sector by a single company.

E. Public dissemination and discussion:

Suggested action 21: Are EITI results accessible and understandable?

Full EITI implementation requires the disclosure of all payments and revenues to a wide audience in a publicly accessible, comprehensive and comprehensible manner.

In many countries, the EITI Report should be published on the national EITI website, recommended in initiation.

Different stakeholders will access information in different ways, and the process of disseminating the results needs to reflect this. This may entail using a wide range of different media including newspapers, television, radio, and local workshops.

Case study 24
Stakeholders in Nigeria have suggested that the disclosing organisation arranges for a range of programmes covering both disclosure and EITI awareness raising, including television debates, local language radio programmes, websites, booklets and seminars in schools and universities.

Case study 25
According to Ghana's EITI reporting guidelines the results need to be 'readily understandable to users with a reasonable knowledge of the mining sector… and a willingness to study the information with reasonable diligence'.
The consultative working group in Nigeria states that the results must be 'factual, non-interpretive and simple' and have suggested, in common with the coalition in Azerbaijan, that an explanatory booklet should accompany the results.

Suggested action 21a: Are procedures in place to disseminate the results widely?

If a country's implementation of the EITI is to move beyond a technical exercise in disclosure, it will be important for there to be widespread dissemination of the results which will put revenues received from oil, gas and mining in the context of broader financial management issues. Governments are particularly encouraged to realise the principles on open budget preparation, execution and reporting of the IMF's *Code of Good Practices on Fiscal Transparency* and to complement this with a well-targeted popular publication campaign.

Most of the countries that have started implementing the EITI are planning to hold various information sessions and workshops – at both the national and local level – to encourage responsible reporting on the issues. Language will be an important issue to consider in making the results understandable to stakeholders – including translation into local languages where necessary.

Case study 26
In the Kyrgyz Republic the Ministry of Finance is considering setting up a communications department to assist in communicating and receiving feedback on their financial management with the public.

Suggested action 22: Has there been a discussion of the results of the reported revenues and payments that involves key stakeholders?

Once the results are in the public domain, it is important that the government is proactive in arranging a public discussion around the reported revenues. For the EITI to be effective key stakeholders need to be able to discuss, evaluate and interpret the results. This discussion will signal the willingness of the government to be responsible and accountable for extractive industry revenues.

Additional action A22: Has the discussion been extended to include wider stakeholders?

There may be other interested parties whose participation in the discussion stage will enrich the process. Wherever possible, it will be important to provide mechanisms for these stakeholders to offer key insights and help interpret the reported figures. Providing a mechanism to incorporate their feedback may help to broaden support and strengthen the legitimacy of the process and institutions involved.

Review of EITI implementation

F. Review

Suggested action 23: Are there arrangements in place to monitor and evaluate EITI?

A review of the EITI process will help the country to assess the benefits of implementation, show others how well the country is doing and focus on improving future implementation. It is important to ensure that key stakeholders set the terms for the review as well as participating (through surveys or interviews) in the review itself. This stage presents an important opportunity for civil society organisations to work closely with the government, providing complementary oversight of the process.

Additional action A23a: Is there a formal independent assessment mechanism?

The advantage of having a formal, independent assessment mechanism is that it will lend credibility to the EITI process among both domestic and international stakeholders. An independent assessor can present an impartial report that gets to the heart of important questions such as "will the process be sustainable?" and "what lessons can be learnt to improve the roles of government, industry and civil society?"

Additional action A23b: Have lessons learned been shared with other countries and stakeholders?

Sharing lessons learned with other countries who are implementing or considering implementation of the EITI will not only help those countries but will also allow the country sharing the lessons to get credit for the reforms they have undertaken. The EITI Secretariat will operate as a clearing house for lessons learned – through regional and global workshops, revision of the source book and the EITI website.

Suggested action 24: Has the design of decision-making and other processes been influenced by feedback mechanisms?

EITI implementation will continue to improve in the light of experience. It is a 'learning by doing' process. Effective and sustainable implementation needs to incorporate and use appropriate feedback from stakeholders.

Chapter 3
Illustrative guidance for extractive industry companies

Overview

Implementation of the EITI is the responsibility of the resource-rich country concerned. However, the EITI recognises that companies also have a critical role to play in ensuring that the objectives of the EITI are achieved. The guidance currently makes no distinction between international, national, state-owned or private companies although some of the suggested additional actions will not apply to some companies. (This will be elaborated in future editions of the Source book.)

This guidance covers the various roles that extractive industry companies may play. It separates out their role in endorsement of the EITI from the role of country-level support (both for implementing and non-implementing countries).

Summary of company actions and additional actions

Recognising the voluntary nature of the EITI, but also recognising the desire of extractive industry companies (and other stakeholders) to identify the actions that companies can take in support of the EITI, this guidance identifies actions (in dark green) which companies supporting EITI implementation are encouraged to take to support effective implementation and additional actions (in green) which companies may take to improve implementation. These actions will support the outcomes set out in the illustrative guidance for resource-rich countries.

Company actions	**Additional company actions**

Endorsement

A. Sign-up

Company actions	Additional company actions
25. Has the company issued an unequivocal statement of its intention to support implementation of EITI?	**A25.** Is EITI integrated into policy and/or internal reporting?
26. Has the company appointed an individual to lead on EITI implementation?	

B. International support

Company actions	Additional company actions
	• Speaking at conferences; • Speaking at internal and external conferences on the subject of revenue transparency/management and EITI; • Commenting on revisions to the core documents which guide EITI implementation; • Assisting the capture of examples of best practice of EITI and disseminating them globally; • Raising EITI with their own government (or with any other governments) as part of their strategic interaction; • Proactively engaging with shareholders to encourage revenue transparency; and

	• Supporting the mainstreaming of EITI approaches into industry best practice and guidelines, and cooperating with such efforts when implemented.

Country-level support

27. Is the company audited to international standards?	**A27.** Has the company encouraged other companies to support increased transparency?

C1. Implementing country

28. Has the company been fully engaged in EITI initiation in implementing countries where it operates?

29. Has the company been fully engaged in EITI implementation in implementing countries where it operates?

30. Has the company been fully engaged in EITI review in implementing countries where itoperates?

C2. Non-implementing country

	• Discussing transparency with donors and IFIs; • Hosting workshops.

Endorsement

A. Sign-up

Company action 25: Has the company issued an unequivocal statement of its intention to support countries choosing to implement EITI?

All extractive industry companies are encouraged to endorse the EITI Principles and Criteria. Companies are also encouraged to indicate their willingness to support countries which choose to implement the EITI. Given that primary responsibility for implementation rests with the country itself, companies should avoid seeming to pressure host countries.

The statement should be by the chief executive or an appropriately delegated representative; should be publicised on the company website and/or in an annual report; and a copy of the statement should be sent to the International EITI Secretariat for inclusion on the EITI website. The statement might include a list of countries in which the company is active and intends to support EITI implementation.

Additional company action A25: Is EITI integrated into policy and/or internal reporting?

A company may wish to reflect the EITI Principles and Criteria in its own policy or internal reporting. In addition, companies may wish to inform their staff how they can support EITI implementation in implementing countries in which they operate.

Company action 26: Has the company appointed an individual to lead on EITI implementation?

The company should appoint a sufficiently senior individual to lead on EITI implementation and awareness raising within the company. It may wish to consider publicising the name of the lead individual on its website, including contact details.

B. International support

At the head office and/or international level, companies can support the development and refinement of the EITI by various actions. These might include:

- Speaking at internal and external conferences on the subject of revenue transparency and the EITI.
- Commenting on revisions to the core documents which guide EITI implementation.
- Assisting the capture of examples of best practice of the EITI and disseminating them globally.
- Raising the EITI with its own government (or with any other governments) as part of its strategic interaction.
- Proactively engaging with shareholders to encourage revenue transparency.
- Supporting the mainstreaming of the EITI approaches into industry best practice and guidelines, and cooperating with such efforts when implemented.

Country-level support

Company action 27: Is the company audited to international standards?

International companies can be expected to observe the audit-related transparency and disclosure requirements under the Organisation of Economic Cooperation and Development's (OECD) Principles of Corporate Governance. Also, these companies will normally be compelled by their stock exchange listing requirements to comply with internationally accepted accounting and audit standards including, for example, the recommendations of the Statement of Recommended Practice of the Oil Industry Accounting Committee (2001).

The IMF draft guide recommends that national and state-owned companies should also be made subject to standard company audit requirements and that there may be a case for oversight by the supreme audit institution, where this institution has the mandate to audit state-owned enterprises.

A company should respond positively and publicly to any moves towards greater transparency made by host governments. Where appropriate, this should be in partnership with other companies operating in the country.

Additional company action A27: Has the company encouraged other companies to support increased transparency?

Some companies may be in a position to encourage other companies operating in these countries to respond positively to the host country's moves, so demonstrating the full contribution of the sector to the host government's economy. This may be because of its position in a country, or because of its role in joint ventures. Where a host government decides to implement the EITI, those companies more familiar with the EITI should play a role in educating other companies operating in the country that are unfamiliar with the Initiative.

C1. Implementing country

It is one of the EITI Principles that reporting should involve all extractive industries companies operating in an implementing country. Implementing countries will decide how best to ensure that all companies report in a timely manner. Depending on country circumstances, this may be through a voluntary arrangement or the establishment of a legal framework [country suggested action 17b].

If the country in which a company is operating has chosen to implement the EITI then the company can expect to be involved in the country's efforts from the outset. Companies' primary responsibilities will be the completion of agreed reporting templates [see country suggested actions in sections C & D – process development]. As stakeholders in the process, most companies should be involved in other aspects of implementation.

Company action 28: *[Country initiation]*: Has the company been fully engaged in EITI initiation in implementing countries where they operate?

Full engagement with initiation may include:

- Has the company identified and provided for the costs associated with its participation in completing the EITI reporting templates and other such involvement in the EITI process [country suggested action 15]? These might include direct costs and capacity building, and indirect costs such as staff time.
- Has the company participated in the identification of an administrator and/or an auditor [country suggested action C13]?
- Has the company engaged with stakeholders to inform their understanding of revenue transparency [support to country suggested action 11]?
- Has the company engaged with stakeholders to assess capacity building needs; has it decided on what support it could provide country suggested action 16]?

Company action 29: *[Country implementation]*: Has the company been fully engaged in EITI implementation in implementing countries where it operates?

Full engagement with implementation may include:

- Has the company engaged in a dialogue with the government on development of the reporting templates [country suggested action 12]?
- Has the decision been taken on aggregated vs. disaggregated disclosure [country suggested action 20a]?
- Has an agreement been reached on which benefit streams will be reported [country suggested action 17a]?
- Has an agreement been reached on breakdown: by levels of government and by type of payment (production entitlements, royalty, fees, etc) [country suggested action17a]?

- Is company information presented in an agreed format – for example, according to the agreed system, periods, basis and units [country suggested action17c]?
- Has the company made arrangements with its external auditor to audit its (cash-basis) payment submissions for implementing countries [EITI Criteria 2]?
- Has the company participated in appointing a trusted and impartial disclosure agency [country suggested action 20]?
- Has the company engaged in public dissemination and discussion on results [country suggested action 22]?

Company action 30: *[Country review]*: Has the company been fully engaged in EITI review in implementing countries where it operates?

Full engagement with review may include:

- Has the company participated in setting the terms for the review [country suggested action 23]?
- Has the company formulated and shared the lessons learned from its involvement in the EITI both nationally and internationally [country suggested action 23 and country additional action A23b]?

C2. Non-implementing country

- Since much of the dialogue around transparency is likely to take place at a government to-government level or in regular discussions between governments or international organisations, a company could consider raising the issue of transparency with donors and international organisations to demonstrate that the company supports moves towards transparency.
- A company could attend or co-host a workshop to discuss options and next steps with a range of stakeholders, including civil society.

Glossary

Term	Definition
Accrual accounting	The system of accounting typically used by companies in which revenue is recognised when it is earned and expenses are recognised as they are incurred. It differs from cash accounting, which recognises transactions when cash has been received or paid.
Administrative body (or administrator)	An independent third party which is responsible for aggregating and analysing the reports submitted by companies and host governments.
Audit	An inspection of an organisation's accounts, typically by an independent body.
Benefit stream	A potential source of economic benefit which the host government receives from the extractive industry. Indirect economic benefits such as construction of infrastructure and employment of local personnel are not considered for the purposes of these reporting guidelines to be benefit streams.
Cash accounting	The system of accounting typically used by governments – and recommended for EITI reporting – that records only the cash payments and receipts relating to transactions made by a business, rather than when the money is earned or when expenses are incurred, as in accrual accounting.
Extractive industries	Extractive industries are those industries involved in finding and removing wasting natural resources located in or near the earth's crust. Wasting natural resources are those resources that cannot be replaced in their original state by human beings.
EITI Report	The report on payments and revenues produced by the administrator as part of implementation of the EITI.
Host country	The territorial boundary over which a host government has jurisdiction and in which a company has extractive industry economic interests.

Term	Definition
Host government	The governing regimes and institutions of a state within whose territorial boundaries companies within the extractive industries operate. Host government includes local, regional, state and federal representatives of these regimes and institutions and entities that are controlled by these regimes and institutions but excludes national state-owned companies.
International company	For the purposes of this source book, an international company includes: • Public and private companies that are active in the extractive industries' upstream activities outside the territorial boundaries of the country in which they are headquartered. • State-owned companies that operate outside the territorial boundaries of the government that controls them.
Licence	An arrangement between an extractive industry company and the host government regarding a specific geographical or geological area and mineral operations. For the purposes of the source book the term licence is also used to define a permit, an acreage position, a contract area, a lease or a block.
National company	For the purposes of this source book, a national company includes public and private companies that are active in the extractive industries' upstream activities within the territorial boundaries of the country in which they are headquartered.
National state-owned company	Company controlled by the host government that conducts extractive industries' upstream activities in the host country. When determining if the company is controlled the following criterion is used: the ability for the host government to govern the financial and operating policies of the company so as to obtain benefits from its activities.

Term	Definition
Payments	For the purpose of the EITI, payments are defined as all material oil, gas and mining payments made by companies to governments.
Production-sharing agreement	An agreement between the host government and an investor, giving the investor exclusive rights to search for, develop and extract minerals in exchange for a share of the production.
Reporting entity	Companies and governments completing and submitting reporting templates.
Reporting templates	The templates that international, national, and national state-owned companies and host governments submit to the administrator as part of implementation of EITI.
Revenues	For the purpose of the EITI, revenues are defined as all material revenues received by governments from oil, gas and mining companies.
Upstream activity	Upstream activity includes all activities related to exploration, development and production from mineral assets up to the point where the minerals extracted are in a marketable state without further processing.

Annex:
Examples of reporting templates

Examples of reporting templates:

These reporting templates were prepared for the EITI in 2003. Further examples and additional information on the templates are available at http://www.eitransparency.org/reportingguidelines.htm

A. Input template for host government reporting entity (oil and gas)

Host country reporting on:

Reporting period:

Scope 1 Benefit streams

Line ref		Guidelines section 6 ref	Volume	Value
1	**Benefit Stream from International Companies only**			
1a)	Host Government Production Entitlement from International Companies	i		
	i) Production Stream – in kind			
	* [specify nature of production and units]			
	* [specify nature of production and units]			
	ii) Production Stream – in cash			
2	**Benefit Stream from National State-Owned Companies**			
2a)	Host Government Production Entitlement from National State-Owned Company	i		
	i) Production Stream – in kind			
	* [specify nature of production and units]			
	* [specify nature of production and units]			
	ii) Production Stream – in cash			

Scope 1 Benefit streams (continued)

Line ref		Guidelines section 6 ref	Volume	Value
3	**Benefit Streams from International and National State-Owned Company**			
3a)	Profit taxes	iii		
3b)	Royalties	iv		
	– in cash			
	– in kind			
3c)	Dividends	v		
3d)	Signing bonuses and production bonuses	vi		
3e)	License fees, rental fees, entry fees and other considerations for licenses/concessions	vii		
3f)	Other payments to Host Governments, specified as:	viii		
	______________________			
	______________________			
	______________________			

Scope 2 Benefit streams

Line ref		Guidelines section 6 ref	Volume	Value
4	**Scope 2 Benefit Streams (voluntary disclosure):**			
	______________________			
	______________________			
	______________________			
	______________________			
	______________________			

Host government sign-off

We acknowledge our responsibility for the fair presentation of the reporting template in accordance with the reporting guidelines, with the exception of:

- ______________
- ______________
- ______________
- ______________

B. Input template for company reporting entities (oil and gas)

Name of company:

Host country reporting on:

Reporting period:

Scope 1 Benefit streams

Line ref		Guidelines section 6 ref	Volume	Value
1	**Benefit Stream to be reported by International Companies only**			
1a)	Host Government Production Entitlement to Host Government	i		
	i) Production Stream – in kind			
	* [specify nature of production and units]			
	* [specify nature of production and units]			
	ii) Production Stream – in cash			
1b)	Host Government Production Entitlement to National State-Owned Company	i		
	i) Production Stream – in kind			
	* [specify nature of production and units]			
	* [specify nature of production and units]			
	ii) Production Stream – in cash			
2	**Benefit Stream to be reported by National State-Owned Companies only**			
2a)	i) National State-Owned Companies equity share of Host Government production entitlement – in kind	i		
	* [specify nature of production and units]			
	* [specify nature of production and units]			
	ii) National State-Owned Companies equity share of Host Government production entitlement – in cash			
2b)	Production received by National State-Owned Company Production stream – in kind	i		

Scope 1 Benefit streams (continued)

Line ref		Guidelines section 6 ref	Volume	Value
2c)	National State-Owned Company production entitlement[1]	ii		
	i) Production entitlement – in kind	ii		
	* [specify nature of production and units]			
	* [specify nature of production and units]			
	ii) Production entitlement – in cash			
2d)	Production entitlement received on behalf of the Host Government	ii		
	i) Production stream – in kind			
	* [specify nature of production and units]			
	* [specify nature of production and units]			
	ii) Production entitlement received on behalf of the Host Government – in cash	i		
3	**Payments to Host Government/National State-Owned Company**			
3a)	Profit taxes	iii		
3b)	Royalties	iv		
	– in cash			
	– in kind			
3c)	Dividends	v		
3d)	Signing bonuses and production bonuses	vi		
3e)	License fees, rental fees, entry fees and other considerations for licenses/concessions	vii		
3f)	Other payments to Host Governments, specified as:	viii		
	______________________			
	______________________			
	______________________			

1 The national state-owned company entitlement relates to its share of production where it is a contracting party, for example, where it has an interest in a licence/concession in addition to the host government's production entitlement.

Scope 2 Benefit streams

Line ref		Guidelines section 6 ref	Volume	Value
4	Scope 2 Benefit Streams (voluntary disclosure):			
	____________________			
	____________________			
	____________________			
	____________________			
	____________________			

Management sign-off

We acknowledge *[or on behalf of the board of directors (or similar body) we acknowledge]* our responsibility for the fair presentation of the reporting template in accordance with the reporting guidelines, with the exception of:

- ____________________
- ____________________
- ____________________
- ____________________

C. Aggregated company templates (mining)

Host country reporting on:

Reporting period:

Scope 1 Benefit streams

Line ref		Guidelines section 6 ref	Volume	Value
1	**Benefit Streams from International and National State-Owned Company**			
1a)	Profit taxes	i		
1b)	Royalties	ii		
	– in cash			
	– in kind			
1c)	License fees, rental fees, entry fees and other considerations for licenses/concessions	iii		
1d)	Signing bonuses and production bonuses	vi		
1e)	Dividends	vii		
1f)	Other payments to Host Governments, specified as (including payment made through production):	iv, v, vii		
	______________________			
	______________________			
	______________________			

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