

# The Extractive Industries Transparency Initiative (EITI)

## Using EITI to Promote Policy Reform

### KEY MESSAGES

- The Extractive Industries Transparency Initiative (EITI) is an international, multistakeholder initiative that promotes transparency and accountability in the oil, gas and mining sectors through the disclosure of government and company data in resource-rich countries.
- To be EITI-compliant, participating countries must meet a minimum set of standards that deal with the quality of reporting and the multi-stakeholder process used to create reports. This is verified through a validation process.
- In 2013, the EITI expanded to require disclosure of information throughout the decision-making chain. It was previously focused on revenues paid to the national government.
- In 2016, the EITI expanded again to require reporting on beneficial ownership, encourage implementing countries to mainstream transparency, and introduced a new system for assessing countries' performance by capturing multiple levels of progress as opposed to just being classified as compliant or not.

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

– Natural Resource Charter, Precept 2

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

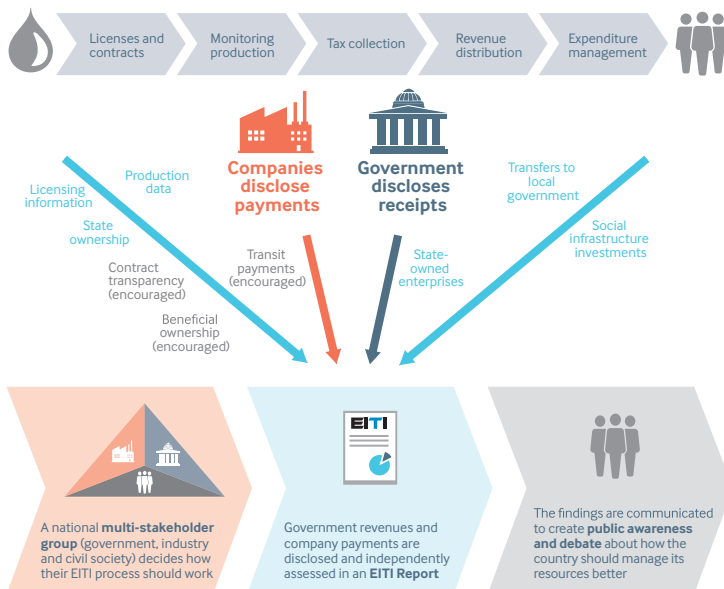


Figure 1. The EITI Standard

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

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

## EITI GLOBAL STRUCTURE

The EITI is an international multi-stakeholder initiative that aims to promote natural resource transparency and accountability. The EITI is governed by an international board of 21 civil society, government and company representatives. The board makes policy decisions about the EITI, such as the EITI Standard, and assessments about whether countries are meeting those standards. The EITI Standard sets out required and encouraged provisions for countries implementing the EITI. A secretariat based in Oslo, Norway is responsible for turning policy decisions of the EITI board into action, and for coordinating worldwide efforts in implementing the EITI.

## COUNTRY PROCESS

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

## EITI REPORTS

Though EITI began with formal reports, extractive industry disclosures do not need to be confined to EITI reports. The EITI Standard gives countries the flexibility to “mainstream” disclosures into government and company reporting systems. This means that when information required by the EITI is already routinely disclosed through government and company reporting system, a national MSG may make a request to the international board to mainstream EITI implementation. If the application is approved, disclosures need not only be made in EITI reports but all disclosures will still be subjected to the EITI requirements.

*In addition to payment and revenue data, EITI reports must include information on licenses and license allocations, in-kind revenues, mandated social expenditures, subnational payments, transportation revenues and production data.*

Allocation of rights	Production data	Revenue collection	State-owned enterprises (SOE)	Subnational	Social impact	Revenue management
Legal framework and fiscal regime (§ 2.1)	Exploration activities (§ 3.1)	Taxes and primary revenues (§ 4.1)	SOE level of beneficial ownership (§ 2.6(b))	Direct payments/receipts (§ 4.6)	Employment (§ 6.3(d))	Revenues in and not recorded in budget (§ 5.1)
License award/transfer process and deviation (§ 2.2)	Production volumes and values (§ 3.2)	In-kind revenues (§ 4.2)	Government transfers by SOEs (§ 4.5)	Mandated national/subnational transfers (§ 5.2)	Social payments (§ 6.1)	Earmarked revenues and budget/audit process (§ 5.3)
Register of licenses (§ 2.3)	Export volumes and values (§ 3.3)	Infrastructure/barter provisions (§ 4.3)	SOE quasifiscal expenditures (§ 6.2)			
Beneficial ownership (§ 2.5)	Economic contribution (§ 6.3(a)-(e))	Transport revenues (§ 4.4)				
Contract/license disclosure (§ 2.4)		Revenue disaggregation (§ 4.7)				

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

Source: NRG

## VALIDATION

Validation is a review conducted by an independent agency to verify whether the implementing country has complied with all of the requirements in the EITI Standard. Once the validator has completed its review, it submits a report to the Validation Committee of the EITI board an assessment of compliance with each provision. The Validation Committee reviews the report and makes a recommendation to the board on the country’s compliance with the EITI Requirements. The board then makes the final decision on whether EITI Requirements have been met or not, and on the overall compliance.

A country’s level of progress and compliance with each individual EITI Requirement is indicated by designating the country as having made either satisfactory progress, meaningful progress, inadequate progress, or no progress. EITI-compliant countries are required to undertake validation every three years.

## CIVIL SOCIETY PARTICIPATION

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

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as actual practice in implementation of the EITI. Civil society organizations must be able to speak freely on transparency and natural resource governance issues. Concerns about restrictions on civil society participation in an EITI-implementing country can be raised with the EITI board's Rapid Response Committee. If the EITI Board finds that a country has not made satisfactory progress on civil society engagement due to restrictions by government, the country will be suspended. An updated Civil Society Protocol came into force in 2016, providing more detailed guidance on how the civil society requirements will be assessed.

### Case study: Liberia

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

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

In 2017 Liberia underwent validation and was found to have made meaningful progress in meeting the EITI Standard, despite the Ebola disruption.

## BENEFITS OF ENGAGING WITH THE EITI

As of January 2018, there are 51 implementing EITI countries. Lessons from these country experiences illustrate that EITI can be a valuable tool for oversight and reform, or it can be a superficial “box-ticking” exercise. When used as a valued tool, it can:

- **Inform oversight.** Analysis of the information in EITI reports can help identify governance weaknesses, which can help stakeholders monitor the management of the oil, gas or mining sectors and develop recommendations for policy reform.
- **Inform sector lawmaking.** EITI reports can shed light on the allocation of extractive rights, the functioning of state-owned companies, the effectiveness of revenue collection, and shifts in production—all factors that can inform lawmaking.
- **Inform annual appropriation decisions.** EITI reports, particularly if detailed and maintained regularly over time, can lift the veil on where revenue amounts come from and how they are likely to vary from year to year.
- **Ensure the government is working in the public interest.** The general public, civil society and media can ensure the government is getting a good deal for the country's natural resources and allocating extractives revenues for the public good.
- **Root out or uncover corruption.** EITI reports can help in overcoming systemic corruption or misappropriation of funds.

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## QUESTIONS TO ASK

- If information from extractive companies and government agencies is not publicly available in my country, would the EITI be useful? Are there existing government and company reporting systems, through which EITI disclosures could be made?
- If the government is implementing EITI, at what stage of the process is it? Are EITI disclosures relevant to the most pressing governance challenges in the country? Are EITI disclosures being analyzed and used in policymaking?
- Has the multi-stakeholder group been established? Is it equipped to perform its mandate? Has civil society been a part of the process?
- Is civil society able to meaningfully participate in discussion about natural resource governance in my country? If not, what would need to be changed for this to happen?

## ADDITIONAL RESOURCES

EITI, *The EITI Standard* (2016), available at: <https://eiti.org/document/standard>

NRGI, *From Reporting to Reform: Eleven Opportunities for Increasing EITI Impacts* (2015), available at: <https://resourcegovernance.org/analysis-tools/publications/reporting-reform-eleven-opportunities-increasing-eiti-impacts>

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

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

Guidance to implementing the EITI Standard can be found on the EITI website at: <https://eiti.org/guide>

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