

Institute for Development of Freedom of Information

INSTITUTE FOR DEVELOPMENT OF
FREEDOM OF INFORMATION



Extractive Industries Transparency Initiative

(EITI)

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Executive Summery

The research studies the Extractive Industries Transparency Initiative (EITI), its mission, scope of activities and benefits of implementing the initiative for governments, international, non-governmental organizations and civil society based on the official web resources of the EITI and its partner organizations.

It was demonstrated in the research that since the natural resources are a huge wealth of a country, a prudent use of the resources can be an important engine for sustainable economic growth and social development. However, if the resources are managed poorly, it can create negative economic and social impacts in the country, such as raise of corruption, eruption of a conflict. For instance, 85% of the conflicts in Peru are related to mining and energy projects.

The research showed that management opacity of the extractive industries poses many risks, such as: utilizing resource revenues for pet projects regardless of the society's needs and priorities of development, underpay of taxes by the companies may also underpay their taxes, uneasy access on information about the environmental impact of the extraction projects on lands, water, etc.

On the other hand, transparency is essential in extractive industries for allowing citizens, investors, companies and governments to ascertain the real cost of a specific project and make better decisions about the social and environmental viability of extractive activities, thus it assists build citizen trust to governments. EITI ultimately tries to strengthen government and company systems of implementing countries for bringing more transparency in the extractive industry activities.

1. Overview of the EITI

The Extractive Industries Transparency Initiative (EITI) is a global standard, endorsed by multi-countries and stakeholders, to promote an open and accountable management of natural resources. The Initiative seeks to strengthen government and company systems and in implementing countries of the EITI Standard, it is supported by a coalition of governments, companies and civil societies.



It is frequently thought that the EITI was launched in 2002 since the former UK Prime Minister Tony Blair was anticipated to outline the idea of the Initiative in a speech at the World Summit on Sustainable Development in Johannesburg, 2002. However, due to an uneasy relationship between the British PM and the President of Zimbabwe – Robert Mugabe, Tony Blair never delivered intended remarks.

Nonetheless, the original speech was published, hence, the UK Department for International Development (DFID) assembled a meeting of civil society, companies, and government representatives. At the meeting, need of some kind of reporting standard was concluded. Thus, at the [conference in London, 2003](#), about 140 delegates representing 70 governments, companies, industry groups, investors, international organizations, and NGOs, agreed on a Statement of Principles to increase transparency of payments and revenues in the extractive sector¹.

2. Mission of the EITI



The EITI believes that the openness is necessary about country's management of its natural resources

¹ Generally refers to the oil, gas and mining industries, https://eiti.org/glossary#extractive_industries.

to ensure that governments work in benefit of national development, since the prudent use of natural resources can be an important engine for sustainable economic growth and social development. However, if the resource wealth is managed poorly and improperly, it can create negative economic and social impacts in the country, such as raise of corruption and even, eruption of a conflict. For instance, in Peru there are over 200 ongoing conflicts, 85% of them tied to mining and energy projects.² In 2015 Peru has declared the state of emergency twice due to extractive conflicts in Tia Maria³ in spring and at the Las Bambas mine in Apurimac⁴ in fall, unfortunately, the clashes between the police and protesters left some dead and many injured.

The Mission of EITI is very relevant to Georgia. Georgia is plagued by social conflicts on the issues of extractive industries and transit of natural resources which is due to the lack of information of the society and the people employed in these fields. For instance, strikes of workers of Chiatura and Tkibuli mines, confrontations regarding the Gold mine of Sakdrisi-Kachagiani, issues of additional gas supplies from Russia, statements of company Frontera regarding the gas resources of Georgia.

EITI underlines the importance of transparency by governments and companies in the extractive industries and the need to enhance accountability as well as public financial management.

3. Management of the EITI

Governing body of the EITI is formed by the Board and Secretariat. In every two years the Board, composed of members of the governments, companies and civil society, is appointed at the Conference that takes place in one of the member states. Current Board consists of 20 members and is chaired by the Rt. Hon. Clare Short until the EITI Members' Meeting on February 23th, 2016, in Lima, Peru. At the Peru Conference, Fredrik Reinfeldt - the former Swedish Prime Minister 2006-2014 will be elected as a next Chair of the Initiative as he was nominated for the position at the EITI Week in Kiev, Ukraine, held on December 7-10, 2015.

² Local Conflicts and Natural Resources, <http://www.thedialogue.org/wp-content/uploads/2015/05/Local-Conflicts-and-Natural-Resources-FINAL.pdf>, pg.3.

³ Peru declares state of emergency in mining region, <http://www.bbc.com/news/world-latin-america-34400831>.

⁴ Peru anti-mining protest sees deadly clashes, <http://www.bbc.com/news/world-latin-america-34389803>.

In addition to this, as the EITI is a multi-stakeholder coalition of governments, companies, investors, civil society organizations and partner organizations - MSG (Multi-Stakeholder Group) oversees the EITI process in implementing countries and internationally through the EITI Board. While functioning of the board is facilitated by the EITI Board Committees since the committees deliver recommendations on various topics on which Board makes decisions.

The International Secretariat, headed by Jonas Moberg and based in Oslo, Norway, is an independent body accountable to the Board. The Secretariat is supposed to turn decision of the Board into action and is also responsible for running the EITI Association, members of which are entitled to be all implementing and supporting countries.

General responsibilities of the Secretariat include: outreach and advocacy, communicating and sharing acquired knowledge with the stakeholders, managing a resource center on revenue management and transparency, oversight of the Validation process, organizing conferences, and supporting the Initiative implementation process. The Secretariat also leads the staff of the EITI, including the Regional Directors.

It should be noted that much of technical assistance provided to countries implementing the EITI, comes from the World Bank through the World Bank EITI Multi-Donor Trust Fund (MDTF). The donors of the MDTF are: Australia, Belgium, Canada, Denmark, the EU, Finland, France, Germany, Japan, the Netherlands, Norway, Spain, Switzerland, the UK, and the USA.

Countries that provide political, technical and financial support to the EITI are following: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Norway, Qatar, Spain, Sweden, Switzerland, the Netherlands, and the UK.

Civil society groups also back the EITI through their advocacy, training, monitoring and facilitation efforts. The EITI supporter civil society groups are: Catholic Agency for Overseas Development (CAFOD), Global Witness, Natural Resource Governance Institute, Open Society Institute, Oxfam, Publish What You Pay Coalition, Secours Catholique (Caritas), and Transparency International.

Partner organizations of the Initiative are following: African Development Bank (AfDB), Africa Union, American Petroleum Institute (API), Asian Development Bank (ADB), Australia-Africa Mining Industry Group (AAMIG), Commonwealth Secretariat, El Source Book, EBRD,

European Commission, European Investment Bank (EIB), G20, G7, Inter-American Development Bank (IDB), International Council on Mining and Metals (ICMM), IMF, International Organisation of La Francophonie (OIF), International Organisation of Oil and Gas Producers (OGP), KfW Bankengruppe, Open Government Partnership, Organisation for Economic Co-Operation and Development (OECD), and the World Bank Group.

Over [90 global investment institutions](#) (such as: Aberdeen Asset Managers Ltd, Banco Fonder, Canadian Labour Congress, and etc.) act as a critical pillar of the EITI. Notably, these institutions represent over \$19 trillion in assets under management.

Lastly, [over 90](#) of the world's largest oil, gas and mining companies have become the EITI Supporting Companies. They publicly support the Initiative and assist in promoting the Standard locally as well as internationally; also, supporting companies enhance relationship between the stakeholders and the local communities. Generally, a company needs no additional reporting or disclosure of payments to become an EITI Supporting Company.

3.1 Funding of the EITI

It should be mentioned that the supporting governments and companies are funding the Secretariat, while the implementing countries are expected to pay for the implementation of their EITI process. However, Validation⁵ is covered by the EITI international management.

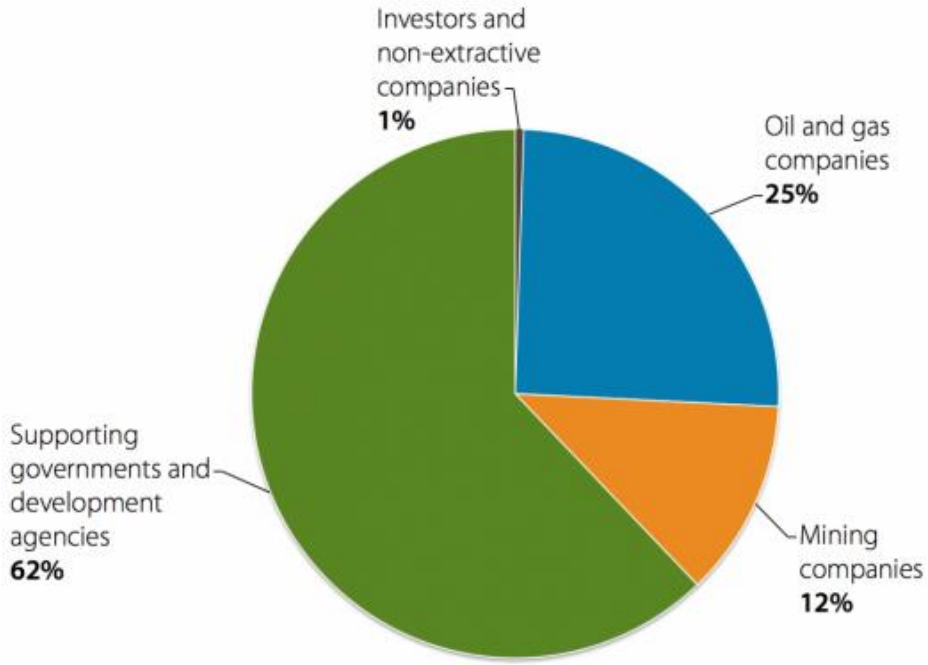
The Initiative receives a considerable amount of off-budget support from implementing countries that are mostly utilized for funding of the training seminars and the EITI Global Conferences.

In overall, the funding of supporting governments and development agencies amount to 62%.

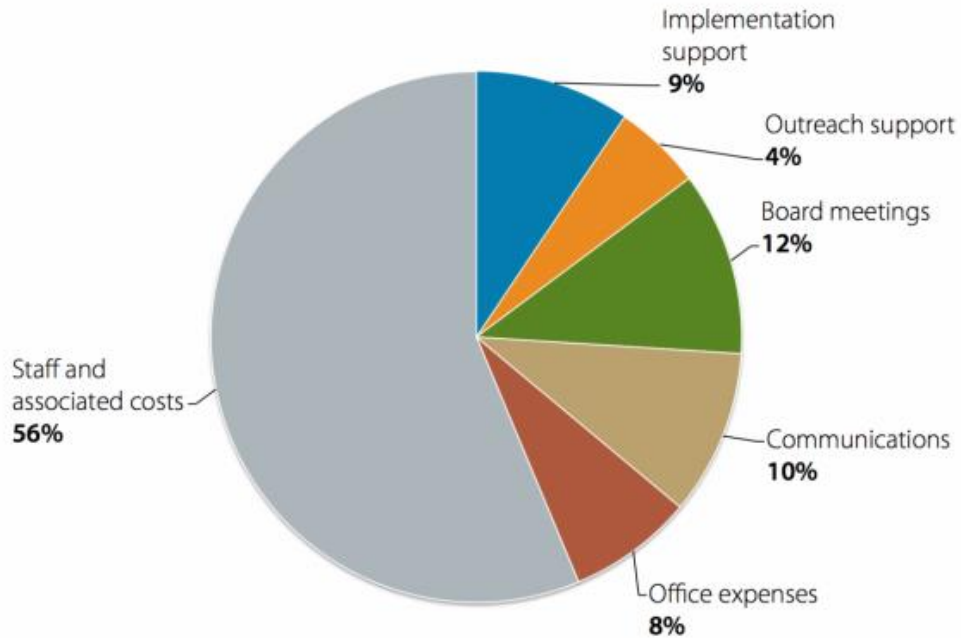
⁵ Validation is an external, independent evaluation mechanism, serving to assess the performance of a country. <https://eiti.org/glossary#validation>

(Extractive Industries Transparency Initiative, 2016)

Sources of funding 2014



Expenditure 2014



3.2. The EITI Global Conference

As it was mentioned above, Global Conference is arranged in every two-three years in order to provide an international forum for the EITI stakeholders to elaborate the objectives of the Initiative. Next [EITI Global Conference](#) is scheduled to take place on February 24-25th, 2016, in Lima, Peru and will focus on the results obtained from implementing the EITI Standard, informing policy dialogue and integrating the EITI into the work of companies and governments.

The conference will be attended by high-level representatives from governments, extractive companies, investors, civil society and international organizations. Speakers of the conference include: President of Republic of Honduras – Juan Orlando Hernandez, Prime Minister of Democratic Republic of Congo – Matata Ponyo, President and Chief Executive Officer of Newmont Mining Corporation – Gary Goldberg, Chair of Transparency International – Peru – Jose Ugaz Sanchez-Moreno, Professor of Economics and Public Policy at Blavatnik School of Government at the University of Oxford – Paul Collier, and Chair of the EITI – Clare Short.

4. The EITI Principles

At the first Conference in Lancaster House, 2003, Statement of Support for the Initiative was signed by more than 40 institutional investors. The Statement argued that disclosure of information would enhance corporate governance and reduce risk. Moreover, [12 EITI Principles](#) were developed at the above-mentioned conference, based on which the Initiative has evolved. The principles, listed below, brought to focus the need for transparent management of natural resources.

The EITI Principles State:

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.

5. The EITI Standard

12 Principles are part of the [EITI Standard](#) that is closely upheld by the EITI. The Standard stands for the global transparency for improving governance of natural resources and it is an authoritative source on how the Initiative can be implemented. The Standard was launched at the [EITI Global Conference in Sydney, 2013](#), as a result of an extensive two-year-long consultation process and consists of two parts: *Implementation of the EITI Standard*, and *Governance and Management*.

1. Implementation of the EITI Standard includes: the EITI Principles, the EITI Requirements, the Validation Guide and the Protocol "Participation of Civil Society."
2. Governance and Management contains an overview of how the EITI is organized; introduces the EITI Articles of Association (provisions on how the EITI Members' Association is governed), EITI Openness Policy, the draft EITI Code of Conduct and the draft EITI Constituency Guidelines.

The EITI Requirements, laid out in Part One, must be adhered to by countries implementing the EITI. There are two groups of countries implementing the Requirements: EITI Candidate and EITI Compliant countries. A country planning to implement the EITI is required to undertake a number of steps before applying for EITI Candidature,⁶ which is a temporary state intended to lead to compliance with the Standard. Only in case of meeting the Requirement 1 – Effective oversight by the multi-stakeholder group - a country can be recognized as a Candidate. In order to become an EITI Compliant, it must further demonstrate, through Validation, that has met all the Requirements.⁷

In 2014 there were 4 implementing countries while for 2015 the number has grown to 49.

29 EITI Compliant Countries (ones that have met all Requirements) are following: Cameroon, Chad, Cote d'Ivoire, Guatemala, Iraq, Kyrgyz Republic, Mauritania, Mozambique, Niger, Norway, Peru, Republic of the Congo, Sierra Leone, Timor-Leste, Trinidad and Tobago,

⁶ The EITI Standard, https://eiti.org/files/English_EITI_STANDARD.pdf, pg. 11.

⁷ The EITI Standard, https://eiti.org/files/English_EITI_STANDARD.pdf, pg. 10.

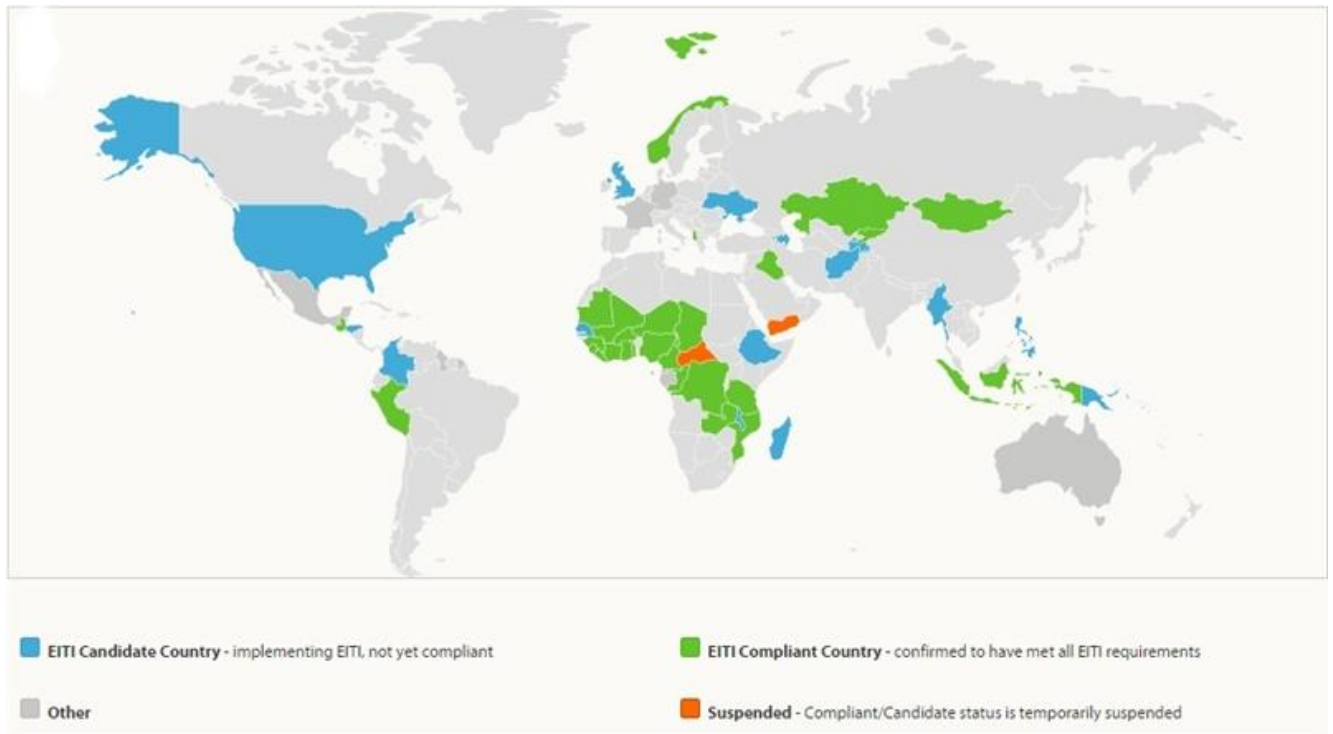
Albania, Burkina Faso, Democratic Republic of Congo, Ghana, Guinea, Kazakhstan, Liberia, Mali, Mongolia, Nigeria, Togo, Zambia, Indonesia, and Tanzania.

18 EITI Candidate Countries are following: Afghanistan, Azerbaijan, Tajikistan, Ethiopia, Honduras, Madagascar, Malawi, Senegal, Colombia, Myanmar, Papua New Guinea, Philippines, Sao Tome and Principe, Seychelles, Solomon Islands, Ukraine, the UK, and the USA.

The Board has suspended the EITI Status for countries in which the EITI implementation was slow or halted due to political instability or inability to meet the EITI reporting deadlines. Countries with suspended statuses are: Yemen and Central African Republic; while Equatorial Guinea and Gabon lost their status as Implementing Countries due to their inability to comply with the EITI Rules.

On the other hand, governments of - Australia, France, Germany and Guyana - have announced their desire to implement the EITI Standard.

(Extractive Industries Transparency Initiative, 2016)



Validation is also a requirement of the Standard, serving to assess the performance of a country. It is an external, independent evaluation mechanism undertaken by a Validator procured by the International Secretariat. Validation promotes dialogue and learning at the country level and safeguards integrity of EITI since Validation holds all EITI implementing countries to the same standard.

The last requirement of the Part One is "Protocol: Participation of Civil Society", fundamental to achieving the objectives of the EITI. There is no doubt that an active participation of civil society in the EITI process is key to ensure that transparency created by the Initiative leads to greater accountability.

Regarding Part Two - Governance and Management, it should be mentioned that the EITI is governed by the not-for-profit members of association under the Norwegian law. The EITI Association's articles provide the governing framework for the Initiative. Governance and Management section stresses on an openness policy, according to which all documents of the EITI are public, except of the cases listed and defined in the Standard.

Therefore, the Standard ensures that countries implementing the Initiative disclose information on the tax payments, licenses, contracts, production and other key elements around resource extraction. Companies report how much they pay to government (taxes, royalties, etc) and the government on the other hand, reports how much it is receiving from extractive companies operating in its country. These two sets of figures are compared and reconciled by an independent actor and they are published in an annual EITI Report. Thus, the reports grant citizens an opportunity to review how their country's natural resources are managed and how much revenue they are generating.

6. Natural Resource Governance Institute (NRGI)

The EITI Reports are used by the [Natural Resource Governance Institute \(NRGI\)](#) which compiles all of the EITI data into a single, open-format dataset, complete with interactive visualization tools. NRGI is an independent, non-profit organization that provides policy analysis, policy advice, advocacy, capacity building and technical assistance based on rigorous

research. It works with innovative agents of change within governments, civil society, media, legislature, the private sector and international institutions in order to promote accountable and effective governance in the extractive industries. At the country level they provide training, technical assistance and support on how to deliver transparency and accountability, strengthening fiscal systems, reform of state-owned enterprises, improvements in the management of resource revenues, etc.

The core competencies of the NRGIs are measurement and assessment of natural resource (oil, gas, mining sector) governance which they do through the Resource Governance Index and the [Natural Resource Charter](#). The Resource Governance Index (RGI) uses four components to measure the level of transparency and accountability in the oil, gas and mining sectors of 58 countries.

The RGI's four components cover following topics:

Institutional and Legal Setting: 10 indicators⁸ assess whether the laws, regulations and institutional practices enable comprehensive disclosures, open and fair competition and accountability.

Reporting Practices: 20 indicators⁹ evaluate the actual disclosure of information and reporting practices by government agencies.

Safeguards and Quality Controls: 15 indicators¹⁰ measure the checks and oversight mechanisms that guard against conflicts of interest and undue discretion, such as audits.

Enabling Environment: 5 indicators¹¹ of the broader governance environment generated using over 30 external measures of accountability, government effectiveness, rule of law, corruption and democracy. The data reflect the extent to which the broader environment will help or hinder transparency and accountability efforts in the extractive sector.

⁸ Freedom of Information law, Comprehensive sector legislation, EITI participation, Independent licensing process, Environmental and social impacts assessments required, Clarity in revenue collection, etc.

⁹ Environment and Social impact assessments, Exploration of data, Production volumes, Production value, Licensing process, etc.

¹⁰ Checks on licensing process, Checks on budgetary process, Quality of government reports, Government disclosure of conflicts of interest, etc.

¹¹ Accountability and democracy, Open budget, Government effectiveness, Rule of law, Corruption.

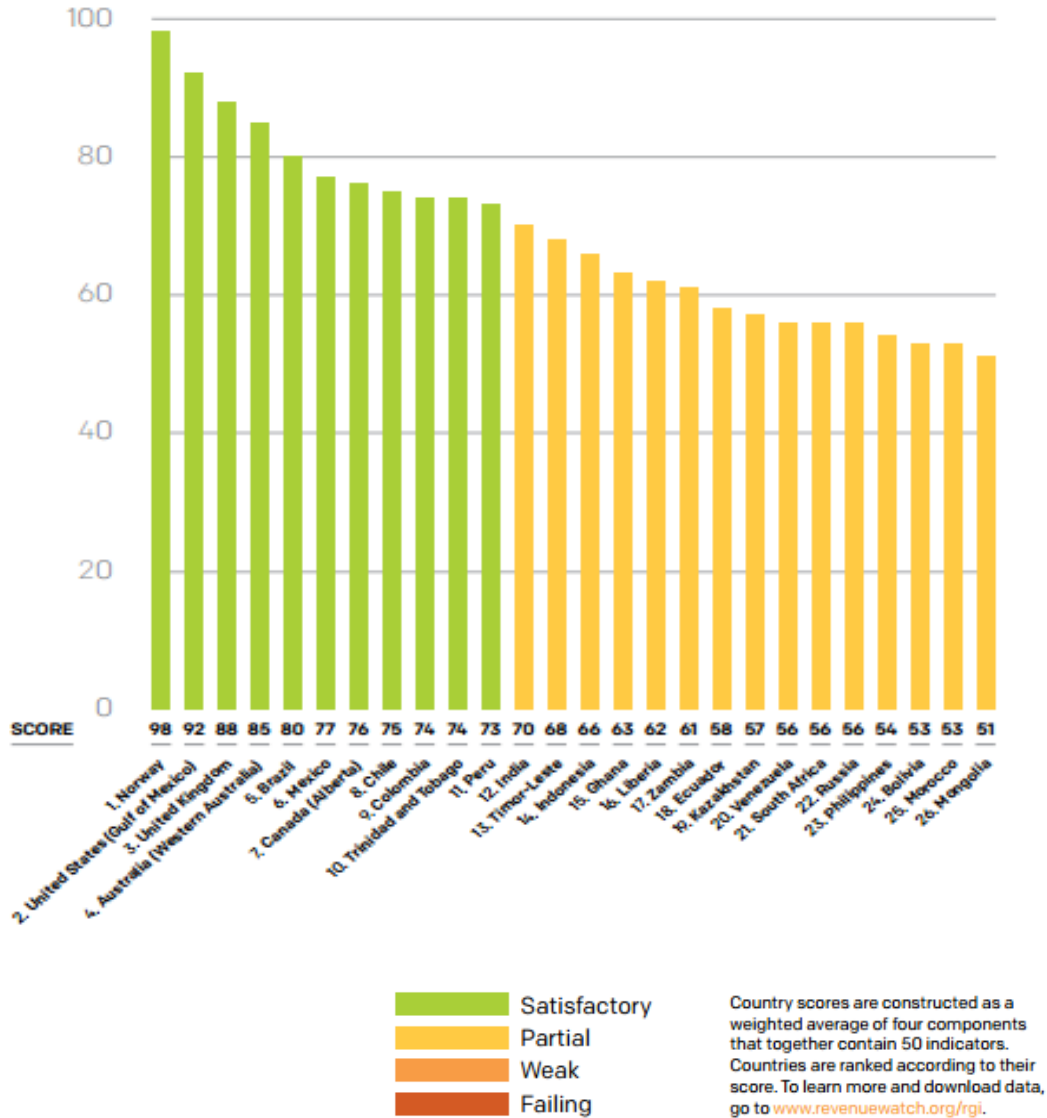
The Four Components of the Resource Governance Index



Based on the Resource Governance Index, the NRG/Revenue Watch Institute publishes [Global Performance on the RGI Country Ranking and Scores](#), which offers a comprehensive outlook of global as well as local picture of government's handing with the extractive industries. For instance, according to the 2013 RGI Report, Norway scores the highest while Turkmenistan and Myanmar rank lowest in natural resource management among 58 countries.

(Extractive Industries Transparency Initiative, 2016)

The Resource Governance Index Country Scores and Ranking



7. Prospective Developments of the EITI

The EITI Board has been considering further advancements of the Initiative. At the 29th EITI Board meeting in Brazzaville, Republic of Congo in April, 2015, the Secretariat reported some topics of discussion for development. In particular, the Secretariat expressed its desire to increase the impact of the Initiative and mainstream the EITI in government and corporate reporting. They intend to spur discussion on how policy debate should be better encouraged and the ways to clarify the Standard.

The Board believes mainstreaming of the EITI must be considered to ensure that industry transparency is not solely confined to the EITI, thus, it becomes an integral part of the government's management of their sector. Governments should figure how they can rely less on the EITI reporting mechanisms and make information required by the Standard available in the forms of databases, websites, portals, reports, etc. In this case, EITI reports would pick on the mission of summarizing and analyzing data present in public domain rather than compiling them.

In addition, it was pointed out that in spite of 250 fiscal years of EITI reporting and over \$1.7 trillion in revenue, data has not generated much public debate in a number of countries and the findings of the Reports have contributed to reform only in few cases. Thus, the Board is contemplating that the EITI data should appear in a timely and easily accessible manner to encourage public debate, policy dialogue and reforms in implementing countries better.

Moreover, since the first two years of Standard implementation demonstrated that there were some ambiguities and inconsistencies, the Board intends to address these topics.

Validation is another topic stakeholders have expressed their concerns about. They worry Validation is unlikely to provide a decent assessment due to a lack of consideration of the diversity of implementing countries or their progress over time. Some other problems have emerged in the areas of nomenclature and terminology that the Board is currently reviewing.

8. Benefits of Implementing the EITI

There are various benefits from implementing the EITI for civil society, investors, companies and countries in overall.

Implementation of the Initiative and publishing the EITI reports improve an investment climate in a country which sends a clear message to investors and international institutions that the local government seeks and commits to increased transparency. It goes without saying that diminishing political and reputational risks is an immense benefit for the companies and investors.

Benefits gained by the civil society encompass the fact that exposing information about the way government manages revenues propels public debate; thus, makes governments more accountable to the people. Therefore, encouraging greater transparency in countries with extractive industries increases chances of eliminating or mitigating some of the potential negative economic and social impacts.

Certainly, [fiscal opacity in the extractive sector poses many threats](#): corruption, mismanagement, waste or conflict eruption as stated above (*See* Chapter 2. Mission of the EITI). There is also a danger that if the extractive industries are not managed transparently, resource revenues might be utilized for pet projects regardless of the society's needs and priorities of development, while companies may also underpay their taxes. Determining whether a community or a country benefits from the extractive resources becomes obvious when being transparent.

It must be highlighted that since the extraction projects inevitably have an impact on the environment it must be publicly acknowledged and reported. Environmental information covers vast amount of issues such as: consumption of water by the mines, whether local population has to travel further for fetching water, loss of biodiversity, whether a land may become unfit for agriculture, climate change implications, health impacts, environmental fines paid by the extractive industries, etc.

For instance, in Kyrgyzstan citizens living near the Talas mine were not informed about the environmental or social effects that mine could cause. Due to this, communities were attributing every mishap – primarily, infant and animal mutation – to the effects of the mine until Publish

What You Pay representative educated the communities about the actual impacts. Also, at the consultative meetings with the extractive communities, the Foro Nacional por Colombia found out that communities in Colombia were most interested in social-environmental information.

As demonstrated above hiding information only fuels suspicion in civil society and destroys trust to the companies, governments, thus it is in their interest to publish information about extractive activities. Transparency about natural resource management allows citizens, investors, companies and governments to ascertain the real cost of a specific project and make better decisions about the social and environmental viability of extractive activities since a responsible management of natural resources can only be ensured if the impact of it is clear so that it doesn't promote suspicion, mistrust or conflict and works for the benefit of society and an entire country.

Summery

Georgia expressed its desire to join the Extractive Industries Transparency Initiative in the [Memorandum of Economic and Financial Policies](#)¹² delivered to the International Monetary Fund in 2005. It was stated in the Memorandum that transparency is an important tool for reducing opportunities for corruption, thus the government aspired to join the international initiatives that would support openness, transparency and accountability in public financial management and enhance the business environment in the country.

The government expected a significant rise in revenues after the completion of Baku-Ceyhan-Tbilisi and South Caucasus pipelines and declared readiness to publish the revenues obtained by the transit of the oil and gas through the Georgian territory. However, Georgia has never joined the EITI.

Within the scopes of the Open Government Partnership (OGP) Institute for Development of Freedom of Information (IDFI) along with other civil society organizations has been actively advocating for Georgia's engagement in the Extractive Industries Transparency Initiative. First time in 2012, SCOs prepared recommendations for the Government of Georgia, among the recommendations was - "[Implementation of the Extractive and Transit Industry Transparency Initiative](#)" and later in 2013, another set of recommendations were prepared for the Government to consider in the Open Government Georgia Action Plan which included - "[Implementation of EITI in Georgia](#)". It was mentioned in the recommendations that Georgia should have taken the responsibility of publishing the revenues of transited oil and gas through its territory and other taxes related to the transit; As a result of this, investment environment would be enhanced.

The relevance of this issue was recently highlighted when the public's lack of knowledge on the sphere of natural resources and transit related issues became clear that led to confrontation and social conflicts. For example, strikes of workers of Chiatura and Tkibuli mines, confrontations regarding the Gold mine of Sakdrisi-Kachagiani, issues of additional gas supplies from Russia, statements of company Frontera regarding the gas resources of Georgia. Extractive Industries

¹² Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, July 2, 2005, International Monetary Fund, <https://www.imf.org/external/np/loi/2005/geo/070205.pdf>

Transparency Initiative guarantees access to information and creates the basis for a social dialogue between the employers and employees.

Implementing the EITI principles in Georgia - publishing the information about the revenues received from the oil and gas operations and other taxes, license or permits - will change the business environment considerably. Citizens will have an opportunity to examine the revenues accumulated in budget from the oil and gas pipelines, as well as from extractive industries. Different governmental and non-governmental structures should be engaged in the project - started from the Ministry of Energy of Georgia, Ministry of Environment and Natural Resources Protection of Georgia, Ministry of Economy and Sustainable Development of Georgia, Ministry of Finance of Georgia to Georgian Railway, and all the commercial legal entities that are involved in the industry and are willing to engage in the EITI.

As it is mentioned in the research (*See* Chapter 5. EITI Standard), commercial legal entities that function on the territory of the country publish how much they pay to the government of host country in different taxes. Two categories of the data (from the government and from companies) are compared by the independent expert and published in the annual EITI report.

Benefits attained from a particular corporate legal entity can be subject to a commercial secrecy thus the information should be published with the approval of a particular commercial legal entity or by the entity itself.

IDFI continues supporting Georgia's engagement in Extractive Industry Transparency Initiative. Implementing the international standard of transparency and accountability will enhance an investment and generally, business environment, will improve corporate governance, promote openness of governmental policy, increase citizen awareness and control on transit and extractive industries, which would contribute to increased trust of citizens to the government officials and decrease the risks of corruption.