EITI’s Role in Revenue Transparency

By Alina Meyer

Summary

Disclosing information about the money governments receive from exploiting oil, gas and minerals is the first step toward guaranteeing that these resources benefit the public. This information allows legislators and citizens to ask questions and shape how their government manages these resources and the earnings they generate.

The Extractive Industries Transparency Initiative (EITI) aims to improve governance in resource-rich countries through the verification and full publication of company payments. Companies disclose payments and governments reveal receipts, both of which are then verified and matched by an independent administrator. A multi-stakeholder group comprised of civic groups, companies and government officials oversees this process.

Parliament can utilize EITI to hold government and companies accountable. As members of their country’s multi-stakeholder group, legislators can generate valuable information and ask questions about the executive’s resource management. EITI also creates a platform to discuss other problems within the sector, such as compensation and social responsibility, which are particularly relevant to legislators’ constituents.

Why is revenue transparency important?

Two-thirds of the world’s poorest people live in countries rich in natural resources. With effective, responsible governance, these resources can generate substantial revenues to reduce poverty and foster economic growth. Revenue transparency is an essential part of this equation. It facilitates oversight, which deters corruption and helps reduce citizens’ mistrust of government management of resource wealth. Most importantly, transparency guarantees that public resources benefit the entire country and not just a select few.

What is EITI?

EITI is an international effort to improve transparency and accountability in the oil, gas and mining sector. Countries voluntarily apply for candidacy; however, once they’re accepted, they must meet a number of minimum requirements to maintain membership. EITI requires that:

- Companies publish royalties and other taxes they pay to governments.
- Governments publish what they receive from companies.
- An independent administrator collects, compares and analyzes the company and government declarations.
- The administrator produces a public report that outlines his or her findings and makes recommendations to address identified discrepancies.
Briefing

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What are the benefits of EITI?

EITI not only verifies revenues received, but also addresses failures in revenue collection and increases dialogue among companies, governments and society. Its benefits depend on the country and the scope of EITI adopted. The more extensive and detailed the verification, the greater the benefits EITI will bring the country. Over time, EITI will improve how resources are managed and ensure that their revenues support growth and development.

Implementation also shows the international community and investors a country’s commitment to good governance and the fight against corruption. Recent RWI research reveals that transparency in government and EITI may help reduce a country’s cost of borrowing from international markets.

Box 1 | Nigeria recovers public funds through EITI

As a result of Nigeria’s 2005 EITI report, the country’s government identified approximately $560 million in underpaid taxes and royalties owed by oil companies. EITI auditors determined the gap was due to government error rather than intentional wrongdoing. By closing the loopholes highlighted in the report, the country is now saving $1 billion each year.

Alone, $560 million is enough to cover Liberia’s national budget for two years in a row and is seven times what the Nigerian government budgeted for agriculture in 2005. The amount is also one and a half times what the Peruvian government budgeted for road maintenance in 2009.

In 2008, Nigeria’s former minister of finance publicly recognized EITI’s role in reducing the country’s reliance on international investors: “The adoption of the EITI underscored Nigeria’s determination to make a clean break with the past by fighting corruption and improving governance. In a revolutionary move, Nigeria . . . published revenues from all sources at all tiers of government. The credibility boost facilitated Nigeria’s debt cancellation by the Paris Club and lifted its profile in the eyes of investors. Standard and Poor’s and Fitch Ratings assigned Nigeria a sovereign credit rating of BB– for 2007. . .  The improved rating led to sizable increases in foreign direct investment in both the oil sector [about $6 billion a year] and nonoil sectors [about $3 billion a year].”
**Why should parliament get involved?**
In countries that are deeply affected by resource extraction, parliamentarians can use EITI to assert their role as champions of national interest. Beyond using the information from EITI reports as a tool for strengthening their oversight of the budget, the initiative gives legislators an opportunity to build expertise and partnerships. Their engagement opens a platform to address other issues that are important to their constituents.

Parliamentarians involved in EITI have made critical contributions. In Liberia, legislators supported civic groups’ demand that EITI include forestry, given the sector’s controversial role in the country’s civil war during the 1990s. In Nigeria, legislators passed a law that makes the initiative mandatory and imposes fines on noncompliant companies.

**How can parliament get involved?**
In countries like Liberia and Kazakhstan, parliamentarians are key players in the EITI multi-stakeholder group. In other countries, they provide external oversight through inquiries and interpellations.

There are numerous ways parliamentarians can get involved in the process:

- **Oversight:** Parliamentarians can scrutinize the government to ensure EITI is effectively implemented and that officials properly account for allocated funds. They can use question periods, conduct public hearings or invite civil society, government officials and the EITI administrator to testify before committees. Parliamentarians can also push for making EITI reports include audited data and detailed payments from individual companies. They can monitor the regularity, timeliness and public availability of reports, as well as hold the government accountable for any discrepancies and shortcomings highlighted therein.

- **Representation:** Legislators can ensure that EITI reflects the interests of their constituents and the wider public by building awareness through public hearings, media interviews and constituency meetings.

- **Lawmaking:** Parliamentarians can call on their governments to adopt EITI. They can also follow the example of Liberia and Nigeria by enshrining the process in law to guarantee that EITI survives changes in government and is integrated in the budgeting and auditing processes.

**Other revenue transparency mechanisms**
In addition to EITI, legislators can sanction revenue transparency by introducing disclosure requirements in national stock exchange regulations, such as the Dodd-Frank Act in the United States (see Box 2), and accounting standards.

Parliamentarians can also support Publish What You Pay’s global efforts to mainstream revenue transparency requirements in the lending policies of export credit agencies and international financial institutions like the World Bank. For more information, visit publishwhatyoupay.org.

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**Box 2 | The Dodd-Frank Act**

In 2010, the U.S. Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. This includes a provision mandating that all companies trading on the New York Stock Exchange disclose their payments to governments in exchange for access to oil and minerals.

*continue next page*
EITI’s Role in Revenue Transparency

Briefing

continue from previous page

Once Dodd-Frank regulations are issued, legislators and citizens from resource-rich countries will be able to access information on payments companies make to their governments if those companies are listed on U.S. stock exchanges.

Legislators can use Revenue Watch’s tool kit on company listings to check if companies operating in their country are listed on the U.S. stock exchanges and will be covered by Dodd-Frank disclosure requirements. For more details, visit data.revenuewatch.org/listings.

The passing of Dodd-Frank is part of a larger push for listing requirements on major stock exchanges to promote revenue transparency. The European Union is also considering passing equivalent legislation.

Questions parliamentarians can ask

• If payment information from oil or mineral companies is not publicly available in my country, why is EITI not implemented? Has the government provided a satisfactory explanation for not adopting the initiative?
• Has the multi-stakeholder group been established? Is it equipped to perform its mandate?
• Is the legislature represented in the multi-stakeholder group? If not, did parliament or its relevant committee discuss joining EITI?
• Have all government entities that manage revenues and companies that make payments disclosed information to the EITI administrator? Did any of them fail to report actions?
• Does the EITI report disclose payments made by each company according to EITI best practices? If not, has the government provided a reason for not presenting aggregated data?
• Is the data in the report audited to international standards? For instance, did the company’s external auditors certify company declarations? If not, why?
• How much has my country earned in total? How does that compare to neighboring countries that produce the same minerals?
• Does the report include information about quantities produced and sale prices? If so, what percentage is my country earning from the total value of sales?
• Are there discrepancies highlighted in the report? Has the government taken steps to address them?
• Has the report been widely publicized and submitted to parliament for debate?
• Do the figures in the report match the information available in the national budget?
• Does the government intend to submit an EITI law? If not, can parliament introduce a draft bill or amend existing oil or mineral laws to include a provision on compulsory EITI implementation?

Further learning

• Ask civic groups, the government or, if applicable, the EITI multi-stakeholder group for a briefing on EITI progress in your country.
• Get in touch with peers from other EITI countries to learn from their experience.
• Read the EITI Guide for Legislators and other publications and analyses on EITI at www.revenuewatch.org or www.eiti.org.

“National resources belong to the people. We are the representative of the people. In the absence of legislators, who represents the voice of the people in the (Tanzanian) EITI?”

— Hon. Stella Manyanya, MP, United Republic of Tanzania