

STANDARD GUIDANCE

(COP 29) Extractive Industries Transparency Initiative

Comment [M1]: This Standards Guidance chapter will be reviewed during the comment period against any new outcomes from the May 2013 EITI conference.

A. Definitions and applicability

The **Extractive Industries Transparency Initiative (EITI)** sets a global standard, implemented by signatory countries and companies, for companies to publish what they pay for resource extraction rights and for governments to disclose what they receive from the extractives sector.

Source:

- *Extractive Industries Transparency Initiative*
eti.org

The **Extractive Industries Transparency Initiative** provision of the COP is applicable to all Members in the Mining Sector.

The **Extractive Industries Transparency Initiative** provisions should be implemented in conjunction with the **Reporting** provisions.

B. Issue background

For resource-rich countries, the management of a country's natural resource revenues for the benefit of a country's citizens is the domain of sovereign governments. Revenues from mining companies in the form of taxes, royalties, signature bonuses and other payments should help drive economic growth and social development in developing and transition countries. However, if not managed well, these resource revenues can create negative economic and social impacts. A lack of accountability and transparency in these revenues can worsen poor governance and lead to corruption, conflict and poverty.

The Extractive Industries Transparency Initiative aims to strengthen governance by improving transparency and accountability in the extractives sector. It is a multi-stakeholder initiative comprised of governments, companies, civil society groups, investors and international organizations. The EITI sets a global standard for companies to publish what they pay and for governments to disclose what they receive. Although it is government-led, the private sector and civil society organisations both play significant roles in how the initiative is implemented.

The basic concept is straightforward: mining companies should declare in participating host countries the payments they make to the government – either individually or aggregated by an independent third party. Once audited to international standards, these figures are then available for comparison against the host government's own separate declaration of the revenues received. This two-pronged process of independent validation provides assurance for the reporting and reduces opportunities for revenue leakage.

While implementation is the responsibility of governments, mining companies can formally sign up to support EITI implementation. The benefits to companies centre on mitigating political and reputational risks. In extractive industries, investments are capital intensive and depend on long-term stability to generate returns. Political instability generated by opaque governance is a threat to these investments. Transparency of payments can help prevent conflict around mining activities and demonstrate the contribution that mining investment makes to a country.

Resource transparency is also addressed in the Global Reporting Initiative (GRI), a requirement under the COP provision on **Reporting** for Members in the Mining Sector. Under the GRI Mining and Metals Sector Supplement, including direct economic value generated and distributed, payments to governments and capital providers, significant financial assistance from governments, development and EITI implementation are disclosed under the **GRI** reporting framework.

Comment [FS2]: Review again after GRI review, also expected to be finalised in May.

C. Key regulations

International standards

The EITI was announced at the World Summit on Sustainable Development in Johannesburg, September 2002. The EITI Board and International Secretariat were established in 2006, and the EITI validation methodology agreed in 2008. EITI implementation is the responsibility of individual signatory countries.

The EITI is a process by which government revenues generated by extractive industries – such as tax, profit oil, and royalties – are published in independently verified reports. These reports are based on information about payments made by companies, and revenues received by governments. All EITI programmes must follow the internationally-agreed EITI principles and criteria.

To become an EITI supporter, an extractives company declares its support publicly and helps promote the initiative internationally and in countries where they operate. Being a supporter of the EITI does not require any additional reporting or disclosure requirements to those for all companies operating in the relevant sectors in countries implementing the EITI. Extractive companies are also asked to fill in an international-level self-assessment form within a year of becoming an EITI Supporting Company. All companies in EITI implementing countries will be asked to fill in a country-level self-assessment form when the country is undergoing Validation.

In summary, a company supporting the EITI:

- has made a statement where it endorses the EITI Principles and Criteria, and made the statement available on its website;
- contributes to implementation in EITI implementing countries;
- is asked to make an annual contribution to the international management of the EITI.

Note that a financial contribution is voluntary. The COP requirement to support the EITI does not mean that Members must make a financial contribution to the EITI.

National law

The EITI is a voluntary initiative that is implemented by countries whose governments sign up to do so. To date, approximately 37 countries are implementing the EITI via country workplans established under multi-stakeholder groups. To achieve EITI Compliance status, a country must complete an EITI Validation within 2 years of becoming an EITI Candidate country. Once a country is Compliant, the country must undergo Validation at least every 5 years.

D. Suggested implementation approach

- **COP 29.1: EITI: Members in the Mining Sector shall commit to and support implementation of the Extractive Industries Transparency Initiative (EITI).**

Points to consider:

- A senior manager should be nominated with strategic responsibility for supporting EITI through:
 - helping promote the EITI internationally and in countries where the company operates;
 - taking part in or supporting the multi-stakeholder process internationally or in EITI implementing countries;
 - alongside all other companies operating in EITI implementing countries, disclosing payments to governments and cooperating with EITI the validation process.The responsible senior manager should nominate a lead contact person and oversee implementation at a country level.
- EITI supporter companies must make a statement endorsing the EITI Principles and Criteria, in the form of a policy or similar, and make this available on the company website.
- All material payments made to participating governments in the form of taxes, royalties, signature bonuses and other forms of payments or benefits to governments must be disclosed, in accordance with applicable reporting templates and country workplans. The data submitted in the reporting templates should be based on company financial statements

which have already been audited to international standards. The EITI Business Guide provides advice as to EITI reporting requirements. Note that EITI does not just apply to mining: any company that is actively exploring or conducting other pre-production operations must disclose all material payments it makes to the government in EITI Candidate or Compliant countries.

- Voluntary disclosure of payments to governments in non-EITI countries is also encouraged, where contract confidentiality provisions allow such disclosure. Note that the Global Reporting Initiative component of the RJC Code of Practices (COP 4 on Reporting) requires public reporting of payments to governments at the international, national and local levels, including a breakdown by country. A summary of the company's contribution to EITI should be included in the company's public reporting, as well as on their external website.
- Staff involved with external affairs, political risk analysis, public reporting and government revenues should understand and act on the business' commitment to the EITI. Tailor training to staff responsibility and provide regular communication as to EITI developments in country implementation.

Check:

- ✓ Have you made a public statement endorsing the EITI Principles and Criteria?
- ✓ Have you appointed a responsible senior manager with responsibility for supporting EITI and have lead contact persons been assigned at the country level?
- ✓ Are systems in place to ensure all payments made to participating governments are disclosed in accordance with applicable reporting templates and country workplans?

E. Further information

The following websites have further information on transparency in the extractive industries:

- Extractive Industries Transparency Initiative (EITI)
eiti.org/
- Extractive Industries Transparency Initiative (EITI) Fact Sheet – How to become a supporting company
eiti.org/files/page/How%20to%20Support%20-%20Extractive.pdf
- Extractive Industries Transparency Initiative (EITI) Business Guide – How companies can support implementation (2008)
eiti.org/files/document/EITI%20Business%20Guide.pdf
- Extractive Industries Transparency Initiative (EITI) – Advancing the EITI in the Mining Sector
www.eiti.org/document/mining
- International Council on Mining and Metals (ICMM) – Extractive Industries Transparency Initiative
www.icmm.com/page/84051/about-us/who-we-work-with/articles/extractive-industries-transparency-initiative
- International Monetary Fund (IMF)- Code of Good Practices on Fiscal Transparency (2007)
www.imf.org/external/np/pp/2007/eng/051507c.pdf
- Publish What You Pay
www.publishwhatyoupay.org
- Transparency International
www.transparency.org/