

# Extractive Industries Transparency Initiative (EITI)

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**Mining Philippines 2009**

September 15, 2009

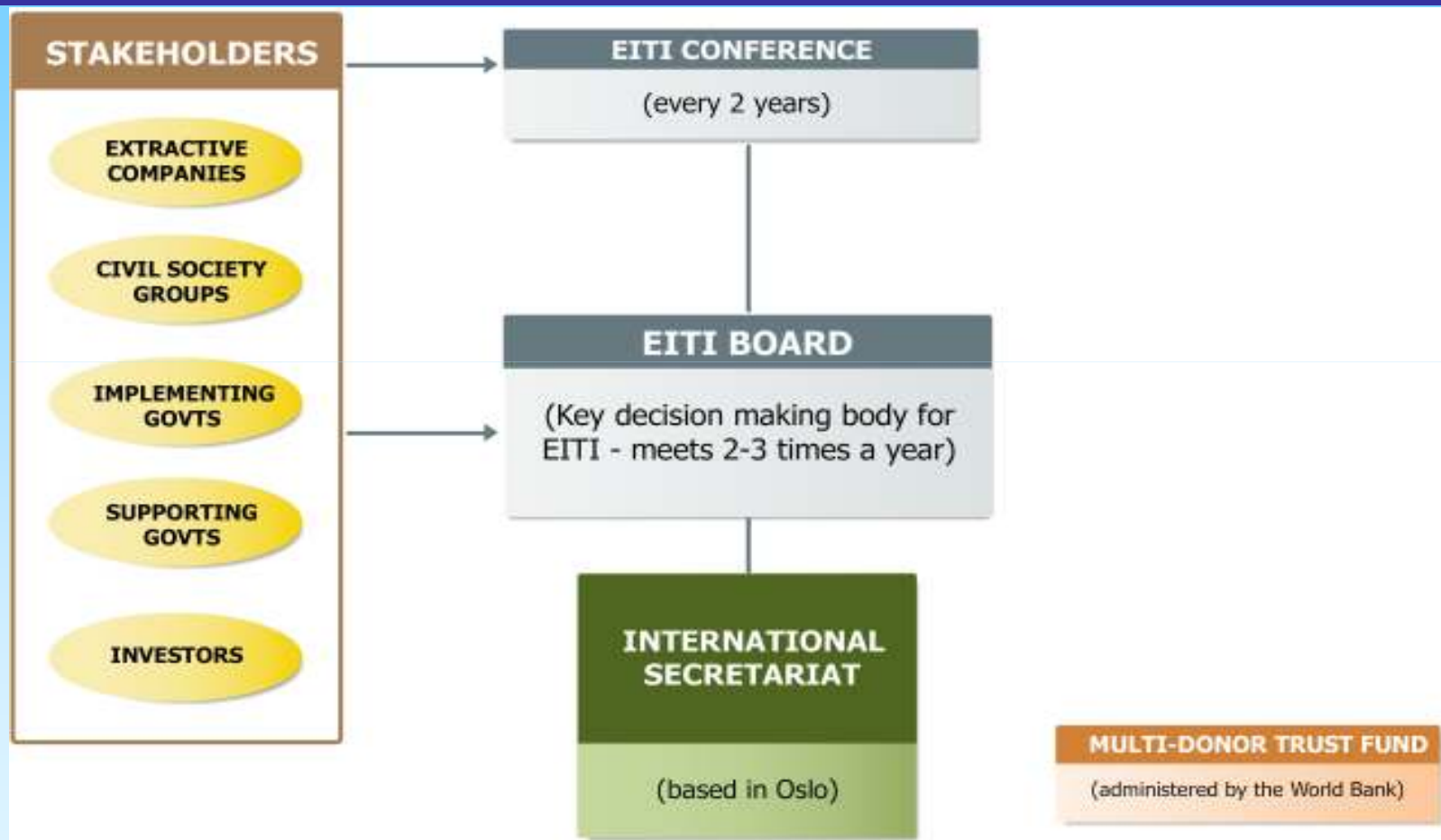
**EITI as a means to achieve country competitiveness  
for mining investment**

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# EITI is a global voluntary initiative which aims to support good governance and transparency in extractive industries



## EITI is part of the “competitive package” for attracting private mining investment

- EITI is an important step toward better sector governance....
  - EITI complements legal, regulatory, institutional and fiscal reforms as follows:
    - ✓ Clear and stable laws and regulations
    - ✓ Rule of law
    - ✓ High level of capacity and skills in government
    - ✓ Fiscal monetary and budget discipline
    - ✓ Even and consistent application of laws and fiscal regimes to all
    - ✓ Open dialogue between government and civil society
    - ✓ Public sector/private sector balance
    - ✓ Transparency
- ↓  
EITI “space”

# How can EITI improve the competitiveness of a mining country

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- Creating a collaborative forum to address social issues: By bringing together CSOs, Government and private industry, EITI can help remove suspicions about EI revenues at several levels: local communities vs. Central governments, local communities vs. Mining companies, and mining companies vs. CSOs etc.
- Mitigating reputational risks: EITI offers a well-established global standard and a systematic framework for collaboration among government, companies, and civil society; possibility to reduce reputational risks due to corruption in a project.
- Improving investor confidence: By providing a clear signal to all stakeholders and investors on national commitment to transparency, EITI offers the possibility for improving sovereign and corporate ratings, and hence the risk profile of foreign and domestic investment.

# How can mining investors benefit from EITI implementation

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- Reduced reputational risks
  - ✓ Show fiscal benefits to countries / public of extractive benefits
  - ✓ Helps companies to maintain ongoing social license to operate
  - ✓ Can be an important part of corporate CSR program
- Reduced operational and country risks
  - ✓ Creates a level playing field for all companies
  - ✓ Reduces corruption risks
  - ✓ Has positive implications for economic management by opening debate on revenue collection and use
- Improved financing prospects
  - ✓ Removes major hurdle for WBG and IFI support of investment projects
  - ✓ Satisfies the requirements of Equator Principles Banks, which account for over 80% of project finance volumes
  - ✓ Improves stance toward institutional investors

# How can EITI improve the dialogue between Civil Society and Government

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- ✓ EITI offers a framework for addressing transparency issues in oil gas and mining sectors
- ✓ The framework formalizes collaboration among government, companies and civil society on EI sector issues
- ✓ It offers clear ability for civil society to contribute
- ✓ The aim is to address concerns which are often raised by civil society: better accountability in sector governance, benefits to communities, and poverty reduction

**Myth 1: EITI is a club of failed states**  
**reality: EITI has received wide acceptance from resource-rich countries throughout the world**

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- **Norway** is first among developed countries to be an EITI candidate
- Globally, there are **31 countries** (and counting) that are in the process of implementing EITI
- Several of the EITI candidate are resource-rich countries in Africa, Asia, and Latin America
- **Azerbaijan** was the first country to complete the full EITI process and be validated as EITI-compliant
- Several other countries are now being validated
- There are interest from several other countries to adopt EITI



## Myth 2: EITI is a World Bank loan conditionality which applies to governance-challenged countries

## Reality: EITI is now a universally-accepted standard of E&M revenue transparency

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- Now established as the standard on transparency in resource areas with clear consensus on EITI objectives, principles and methodology
- International EITI architecture fully in place (EITI Secretariat, Oslo)
- Wide range of supporting entities: oil, gas and mining majors, civil society, bilateral donor agencies, regional development banks
- Increasing reference to EITI in global fora like UN, G8 and in related measures – e.g. proposals for supportive legislation in USA
- Joint statement of the Energy Ministers of G8 plus China, India, and Korea, Aomori, Japan, June 8, 2008: *We welcome the efforts of countries exporting oil and gas as well as minerals that are implementing the Extractive Industries Transparency Initiative (EITI) on a voluntary basis to strengthen governance by improving transparency and accountability in the extractives sector.*



**Myth 3: EITI is a mechanism enabling the World Bank/IMF to control how EI revenues are managed**

**Reality: Countries see benefits in EITI and have several voluntary reasons for joining**

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- Complement sector reforms: countries who see EITI as a logical part of sector governance or anti-corruption reform – with donor engagement
- Start with a Clean slate: countries with historically poor record on governance seeking a clear break with the past - via EITI
- Address internal demand for transparency: local civil society groups and companies demanding more transparency
- Address investor concerns about reputational risks: countries which are keen to signal a higher standard to attract global investors to develop EI resources
- Adopt international best practices: other countries in the region have adopted EITI, raising competitiveness pressure on a country to sign up
- Get things right from the start: countries with newly-found EI resources plan to avoid the mistakes that led to the “resource curse” in other countries.



# Role of the World Bank and donors in supporting EITI implementation - Overview

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- World Bank and other donors help to:
  - ✓ build 3-way consensus for EITI
  - ✓ bring about 3-way stakeholder structures to manage EITI
  - ✓ provide technical and financial support for EITI implementation
  - ✓ ensure EITI process lead to EITI “compliant” status (validation)
- Support is via:
  - ✓ TA by Bank mining team and in-country staff; and
  - ✓ funding from EITI multi-donor trust fund (recipient executed)
- EITI TF grants from Bank mining unit (typically \$1/2m) typically cover:
  - ✓ Set-up of and functioning of multi-stakeholder structures
  - ✓ cost of EITI reconciliation / audit of revenues / payments
  - ✓ capacity building and training for government and civil society
  - ✓ communications and public outreach on EITI data



# EITI work has been mainstreamed in WB country operations

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- In resource-rich countries, EITI / transparency is integral to:
  - ✓ sector strategies in oil gas and mining countries
  - ✓ governance and anti-corruption strategy (GAC)
- Uptake by Bank country directors/country teams in:
  - ✓ EITI linkages in Bank projects and initiatives (anti-corruption; institutional reforms; fiscal flows to sub-national levels etc.)
  - ✓ EITI linkages to other sectors (forestry in Liberia); HIPC etc
- Moving beyond EITI as platform for stepped-up, holistic work in all aspects of the resource cycle (EITI++)
  - ✓ licensing / contract award – through revenue management - to
  - ✓ environment and social issues

## The Multi-donor Trust Fund provides the means to support countries to implement EITI

- EITI Board and Secretariat is at apex of EITI global structure – oversees EITI and its execution by countries
  - World Bank Group (and other development banks and partners) provide technical assistance to countries to adopt and apply EITI
  - MDTF helps provides funding resource to countries. Funds from 13 donors to date: Australia, Belgium, Canada, EC, Finland, France, Germany, Netherlands, Norway, Spain, Switzerland, UK and USA
  - 20+ EITI countries now have MDTF grants (recipient-executed) with more countries in pipeline. See portfolio table on next slide
- MDTF support has made the difference in *launching* EITI in many of these countries -- but country ownership is what *sustains* EITI



# The World Bank is actively supporting the sign-up and implementation of EITI in the EAP region

- Already adopted EITI and progressing toward validation: **Timor Leste and Mongolia** with technical assistance from the World Bank
- Recently adopted EITI and beginning implementation: **Indonesia** with support from the World Bank and DFID
- Expressed strong interest, and considering formal sign-up: **Cambodia, PNG, and Solomon Islands** with support from AusAID and ongoing dialogue with the World Bank
- Expressed some interest, but has not committed: **Lao PDR** (with support from AusAID) and **the Philippines** (with support from the USAID) and ongoing dialogue with the World Bank
- Is the target of an ongoing dialogue: case of **China** with the aim to get either full endorsement of EITI or formal support EITI compliance by domestic companies operating in EITI-candidate countries



# EITI Progress in the Philippines

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- Donors have been talking to DNR about EITI sign up for the past four years
  - ✓ Initial interest to join EITI expressed by DNR
  - ✓ But controversies surrounding mining (after the Rapu-Rapu debacle) precluded further progress
  - ✓ DNR is cautious about fast-track adoption
  
- Private Sector has given much vocal support to EITI implementation
  - ✓ EITI is perceived as a means for levelling the playing field and bringing transparency of payments at local and national level
  - ✓ EITI is also view as a consensual forum for discussing and resolving social issues
  
- USAID has helped carry out the EITI process with two mining companies and their LGUs. This was a collaborative effort with MDC, DNR, LGUs, CSOs, and the Resources Group
  
- PwP and Revenue Watch have recently re-engaged CSOs to advance the EITI agenda



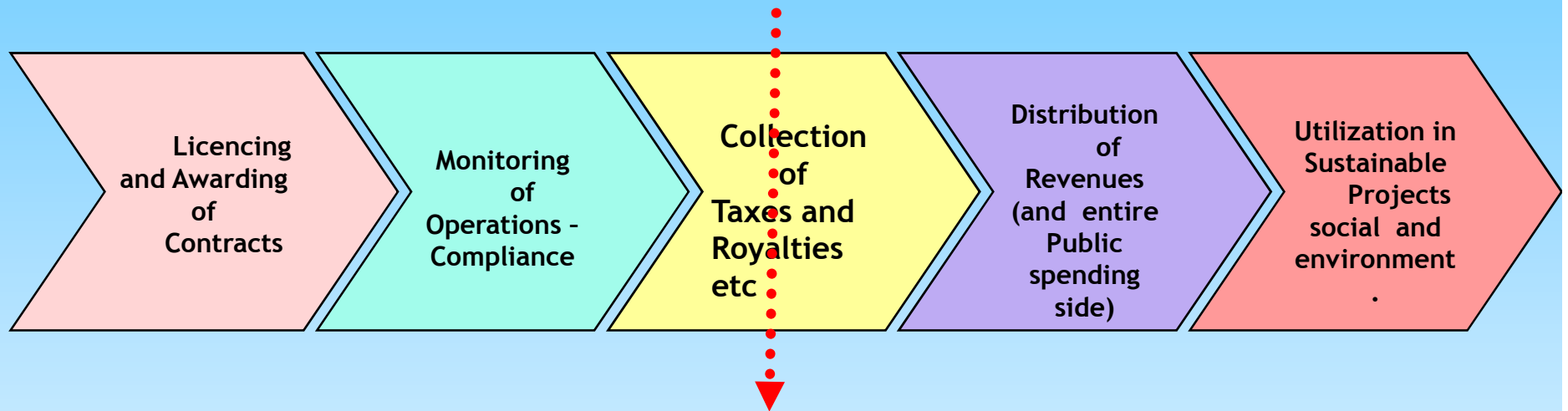
# Key conditions for successful EITI implementation

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Key lessons are emerging in individual countries ..... consistently:

- EITI must matter at the top - i.e. as a minimum that:
  - ✓ clear political ownership and sustained lead at senior level
  - ✓ internal consensus within government on EITI
  - ✓ assigned staff to the EITI effort – with the needed funding
- essential that civil society have a real seat at the table
  - ✓ indeed, the clearest indicator of success of EITI is a strong CSO role
- active industry participation greatly improves EITI process
- as countries get validated, must think of “beyond EITI “ stage

## The challenge ahead: EITI is narrowly-focused by design - but what comes after EITI?



### “base” EITI process

- EITI is a key process and national goal in itself ..... but
- Beyond EITI, countries are seeking to build on this by improvements in sector governance over the EI resource cycle (the “++” agenda). This is distinct from EITI

# Beyond EITI

## Core EITI:

- Reconciliation of payments and revenues - disclose
- Capacity building in govt. and civil society

## “EITI + ”:

- Audits of payments and revenue against contracts - verify and disclose
- Capacity building in govt. and civil society
- Audits of industry processes

## “EITI++” - Sector governance reforms for oil/gas + mining:

- Institutional reforms linked to macro and environ / social issues
- Strengthening of licensing systems
- Revenue mngmt.
- Sub-national revenue distribution
- Benefits streams

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# Thank You

For further information

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