

The Revenue Watch Institute (RWI) is encouraged by the EITI Board's decision to establish a Strategy Working Group (SWG) to examine options and make recommendations regarding the strategic direction of the EITI for the next 3-5 years. Such forward thinking is essential for the EITI to enjoy continued relevance and harness greater benefits for the citizens of extractive rich countries. This letter draws on RWI's EITI experience, especially our support to civil society in implementing countries as well as our research on EITI reports. This memo builds upon the submission by Publish What You Pay (PWYP) which carries our full support.

Our comments here focus on the issue **report quality and scope**, an area which we consider to be a priority for increasing the impact of EITI and demand for the continued production of its primary product.

EITI needs to increase the utility and relevance of country reports to addressing the economic and governance challenges that face resource dependent countries. While growing quickly in number, reports are underutilized in part because they are narrow and uneven in their content and quality. RWI champions a vision of an EITI that encourages and facilitates the production of reports that effectively inform a wide range of audiences about the extractive sectors.¹ This will require both the strong fulfillment of the much-improved 2011 rules, and the provision of information that goes beyond the rules. If EITI reports paint a full and fine picture of a country's extractive sector, they will strengthen accountability, oversight and governance systems more effectively.

In particular, RWI looks forward to participating in an exploration of how reporting on the following components can be added or improved:

- **Comprehensive data** is integral to ensuring the EITI reports are robust enough to meaningfully contribute to oversight, accountability and governance of the extractives sector. If the EITI report omits integral revenue streams or non-monetary payments its ability to inform citizens and oversight bodies will be greatly diminished. While the new rules certainly help, quality reporting on the following key areas will require active encouragement and support:
 - **Sub-national payments;**
 - **Barter payments;**
 - **Social payments.**
- **State-owned companies** often receive a large share of revenues on behalf of government and then transfer some or all of these proceeds to the treasury. In nearly all reports, state-owned company financial flows require more detailed attention and would benefit from best practice guidance and standardization.
- **Natural resource funds** often receive resource revenues directly, avoiding the national budget. This makes it difficult for citizens to track and hold their governments accountable for how the

¹ For further analysis of past EITI reports and discussion of how future reports can be improved see RWI's research on the topic including 'What Makes a Good EITI Report?' and 'What Do the Numbers Say?' found at <http://data.revenuewatch.org/eiti/>.

totality of resource revenues are being managed and spent. Including figures from natural resource funds, as well as other off-budget spending, in the EITI report would aid in oversight.

- **Disaggregated data** enables meaningful analysis and oversight. Although disaggregation by revenue stream has become the norm, EITI data is still not sufficiently broken down, making it difficult to answer important questions such as whether a country receives a fair deal for its resources, or the relative size of company contributions to public revenues. Although such questions must be approached with sensitivity, they should not be off limits to citizens.

Disaggregation is needed:

- **by company;**²
- **by project;**
- **by commodity (e.g. oil, gas, copper, gold, not just petroleum and mining).**
- **Comparison of what is paid with what should be paid** would boost the usefulness of EITI reports as accountability mechanisms in their own right. The World Bank supports exploring this move in their initial inputs to the SWG, and we agree. This relates closely to...
- **Contract transparency** (or, at a minimum, the disclosure of key fiscal terms) would be required to assess whether companies pay what they should.³ In addition to assessing revenue payments, reviewing contracts lets citizens and other oversight agents evaluate whether companies are keeping their obligations environmental and social protections, local content, work programs, and other areas.
- **In-kind payments** represent a high percentage of total extractive revenues, particularly in petroleum rich countries. Many reports only disclose only the volumes received, not their monetized value, and do not differentiate between different in-kind revenue streams (e.g. equity and profit oil). More crucially, few reports provide any information on what the state does with the commodity volumes that it receives. Who are they sold to, and at what price? Where do the sale proceeds go? In many countries, these transactions, where producing governments often engage with the global community trading markets, are secretive and vulnerable to manipulation even by extractive industry standards.

In addition to the improvements and expansions of EITI reports outlined above, it is important for EITI to consider more active broadening of the scope to other links of the value chain:

- **Licensing** in an open manner has long been accepted as best practice, yet there is no standardized means for a country to disclose information on its licensing procedures. EITI is perfectly placed to fill this gap. Licensing information would complement the information already found in EITI reports, such as signature bonus payments and future revenue flows associated with the newly-allocated licenses.
- **Transit revenues** play an important financial and geopolitical role in many countries but are often even more opaque than other extractive industry revenues. Their inclusion in EITI

² For further discussion of company by company disaggregation see 'EITI: The Case for Company-by-Company Reporting' <http://renewatch.org/news/publications/eiti-case-company-company-reporting>

³ For further discussion of the benefits contract transparency could bring see 'Contracts Confidential: Ending Secret Deals in the Extractive Industries' <http://renewatch.org/files/RWI-Contracts-Confidential.pdf>

reports discourage transit corruption, bring more of the extractives value chain under the scrutiny of EITI, and perhaps diffuse uncertainty in this area.⁴

These improvements and expansions will require a strong national commitment to the EITI, which is why RWI fully supports the PWYP recommendations that the EITI would benefit from a **firmer legal basis** and must **deepen engagement with local stakeholders** and their concerns. Enacting these changes will also require EITI to forge stronger relationships with other initiatives such as the **Natural Resource Charter**. RWI looks forward to contributing to the ongoing discussion around the relationship between the EITI and the Charter, which reflects a coherent picture of the governance issues facing the sectors and economies in question. RWI has supported the Charter since its inception and believes it provides a robust and comprehensive framework upon which EITI can draw as it considers some of the components listed above.

In terms of implementation, we recognize that not all of the above changes will be made mandatory in the near term. Components which are not made mandatory can be encouraged and rewarded by EITI in ways that facilitate their successful uptake by a growing number of countries. As with the current revenue reporting, the value of reporting on new issues will depend on its quality. For mandatory and non-mandatory components, the board should provide clear guidance to countries on how to incorporate new content and criteria for the validators and board to determine whether a particular component has been met. We value national ownership and adaptation, but the first round of validations demonstrated how vague requirements can lead to wasted time and resources, and imprecise guidelines leave the board open to accusations of making unfounded decisions. Expansions in report content could magnify the value and impact of EITI reports and therefore deserve careful and concrete consideration by the main EITI processes.

Advancing this agenda represents a priority for RWI. We will continue to evaluate each EITI report that is published, and will provide an increasing store of EITI report data and analysis on our website. In 2012, we will examine how to best operationalize some of the reporting additions mentioned above. This will include the creation of model EITI reporting templates and guides for dealing with state-owned companies, in-kind payments, licensing, and the like. These templates will draw on best practice examples from existing EITI reports and will inform the discussion on how new elements can be reliably and practically added to the scope of current reports.

We hope to actively contribute to the SWG discussions. This is an exciting moment for EITI to build on its achievements and expand its contribution to improving governance and development in resource rich countries. We look forward to seeing and responding to the suggestions of the SWG and participating in the discussions in Jakarta and beyond.

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⁴ For further discussion of the inclusion of transit revenues in EITI see 'Expanding the EITI Agenda to Transportation of Hydrocarbon Resources' http://revenuewatch.org/files/RWI_Transit_Report_ENG.pdf