



Extractive Industries
Transparency Initiative

EITI REQUIREMENTS 4.6 AND 5.2

Subnational payments
and transfers

Guidance Note



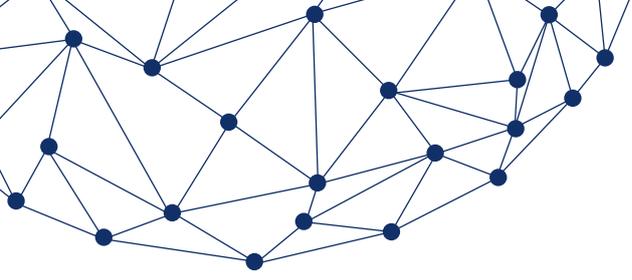
May 2021

This note has been issued by the EITI International Secretariat to provide guidance to implementing countries on meeting the requirements in the EITI Standard. Readers are advised to refer to the EITI Standard directly, and to contact the International Secretariat to seek further clarification. Contact details can be found at www.eiti.org.

EITI International Secretariat
Rådhusgata 26, 0151 Oslo, Norway
+47 222 00 800
secretariat@eiti.org

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Executive summary

In some countries, extractive companies make direct payments to subnational government entities, such as regional governments, municipalities and chiefdoms. Some governments also have revenue sharing mechanisms that stipulate that a share of revenues collected by the central government is transferred to subnational government entities. While these payments may represent only a portion of revenues at the national level, they are often an important source of income for local governments. Transparency regarding these payments and transfers can be useful in holding local authorities to account.

EITI implementation has shown strong demand from local communities to increase transparency around the allocation of such revenues, to ensure that revenues contribute to sustainable local development. In several countries, EITI reporting has led to changes in the applicable regulatory framework and helped local communities demand the share of revenues they are entitled to. EITI implementation can also help local governments track, manage and disclose revenues more efficiently.

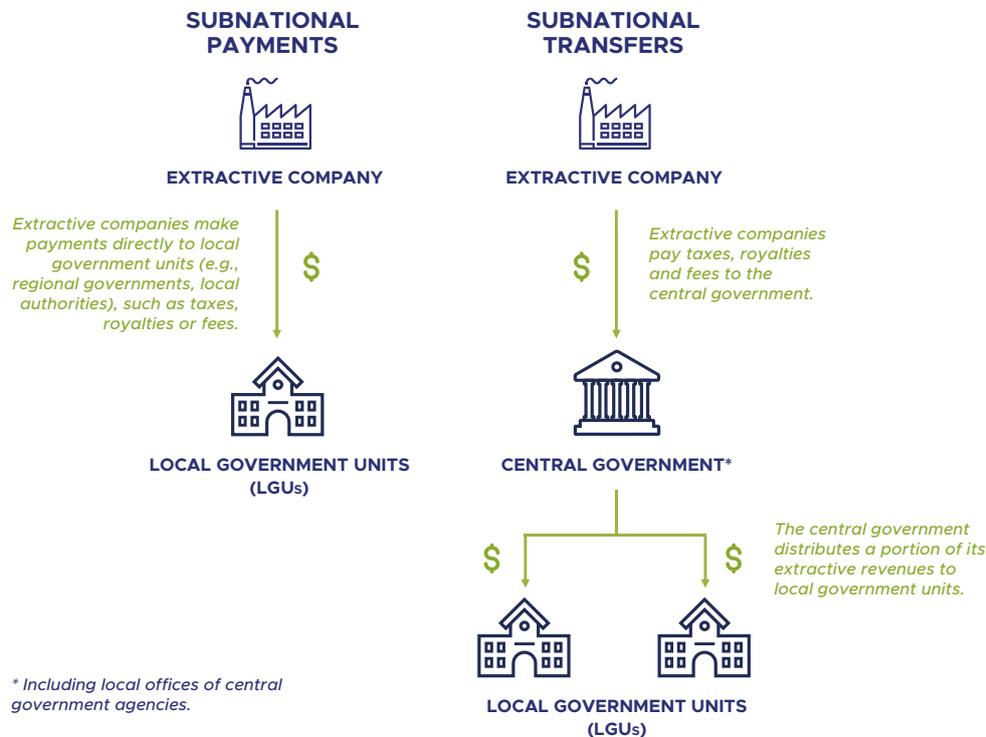
This note provides guidance to multi-stakeholder groups (MSGs) on how to report on subnational payments and transfers, offers examples from implementing countries and outlines opportunities to strengthen the use of data. It has two parts. Part 1 provides guidance on direct payments by companies to subnational entities. The EITI Standard requires that, where these are material, direct company payments to subnational government entities and the receipt of these payments are disclosed and reconciled ([Requirement 4.6](#)). Part 2 provides guidance on transfers of revenues between central and subnational levels of government. Where transfers between national and subnational government entities are mandated by a national constitution, statute or other revenue sharing mechanism, material transfers must be disclosed in the EITI Report ([Requirement 5.2](#)).

What can the data help answer?

- 1) What revenues can local communities expect to receive from extractive companies based?
- 2) What is the effective contribution of extractive companies in local taxes and fees?
- 3) How are local authorities managing revenues from extractive companies? Are such revenues earmarked to specific projects and contributing to local development? How are the revenues spent?
- 4) How can the allocation and management of revenues from extractive resources be improved? Are there any bottlenecks in the process? If yes, how might these be addressed?

Subnational payments and transfers

Tracking revenue allocations to local governments and communities



TERMINOLOGY

What are local government units (LGUs)?

According to the International Monetary Fund, subnational governments, also known as local government units (LGUs), are “institutional units whose fiscal, legislative, and executive authority extends over the smallest geographical areas distinguished for administrative and political purposes. (...) The scope of their authority is generally much less than that of central government or state governments, and they may, or may not, be entitled to levy taxes on institutional units resident in their areas. They are often heavily dependent on grants (transfers) from higher levels of government, and they may also act, to some extent, as agents of central or regional governments.”

Source: IMF (2014), [Government Finance Statistics Manual 2014](#).

KEY CONSIDERATIONS

How will the energy transition impact communities?

Communities that depend on revenues generated by fossil fuel production are among the most vulnerable to shifts related to the energy transition. Many of these communities receive payments from companies or transfers from government. In the context of the energy transition, the EITI can support analysis and dialogue on how to manage the sector in a way that is sustainable. MSGs might wish to analyse how subnational revenues might be affected in the medium to long term, and how these revenues could be invested to build resilience for local communities.

See: EITI International Secretariat (2020), [“Extractives transparency in the era of energy transition”](#).

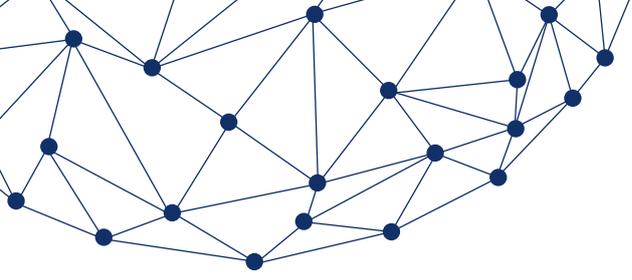
Are subnational revenues allocated to projects that benefit women and minorities?

The EITI Standard encourages implementing countries to disclose information on earmarked revenues at the local level. MSGs might wish to explore whether extractive revenues are spent at the local level in a way that takes into account the different interests and needs of women and minorities and that helps address gender inequalities. MSGs might wish to document whether women and minorities were effectively consulted in the decision-making process around revenue allocation.

See: EITI (2019), [Guidance note: Towards gender-responsive EITI implementation](#).

Overview of steps: Requirement 4.6

| Steps | Key considerations | Examples |
|---|--|---|
| <p>Step 1: Identify whether payments should be made by extractive companies directly to local government units (LGUs). (p.9)</p> | <ul style="list-style-type: none"> What are the links between contract disclosure and broader reforms in the sector? | <ul style="list-style-type: none"> Democratic Republic of the Congo |
| <p>Step 2: Identify existing disclosures on subnational payments, and determine the significance of these payments. (p.10)</p> | <ul style="list-style-type: none"> Do companies and/or LGUs disclose this information systematically? Did companies make payments directly to LGUs in the period under review? What is the value of these payments? What is the adequate reporting threshold for selecting companies and LGUs to be required to disclose information given the national context? | <ul style="list-style-type: none"> Sierra Leone |
| <p>Step 3: Disclose disaggregated, timely and reliable data on subnational payments. (p.12)</p> | <ul style="list-style-type: none"> Has the MSG agreed reporting templates to collect data from companies and LGUs? Are there specific challenges in associating LGUs in the data collection process? Is the MSG disclosing data through EITI reporting? Are there significant discrepancies between data reported by government entities and by companies, and if yes, why? How can the data collection and disclosure process be strengthened? | <ul style="list-style-type: none"> Zambia |
| <p>Step 4: Review and analyse disclosures. (p.14)</p> | <ul style="list-style-type: none"> What additional analysis should be undertaken to respond to the broader objective of the requirement and stakeholder interests? What recommendations can the MSG agree to address the findings of the analysis? | |



Requirement 4.6: Subnational payments

The objective of this requirement is to enable stakeholders to gain an understanding of benefits that accrue to local governments through transparency in companies' direct payments to subnational entities and to strengthen public oversight of subnational governments' management of their internally generated extractive revenues.¹

It is **required** that the multi-stakeholder group establishes whether direct payments, within the scope of the agreed benefit streams, from companies to subnational government entities are material. Where material, the multi-stakeholder group is **required** to ensure that company payments to subnational government entities and the receipt of these payments are disclosed. The multi-stakeholder group is **required** to agree a procedure to address data quality and assurance of information on subnational payments, in accordance with [Requirement 4.9](#).

¹ EITI (2021), *Validation Guide*, <https://eiti.org/document/2021-eiti-validation-guide#req46>.

How to implement Requirement 4.6



Step 1

Identify whether payments should be made by extractive companies directly to local government units (LGUs)

The MSG should first identify whether payments should be made by extractive companies directly to LGUs, based on the law, the regulatory framework or contractual provisions. While such revenue streams can be applicable only to extractive companies, they do not have to be specific to the extractive sector. Typical examples can include property taxes, surface/land fees and fees for water usage.

In identifying which revenue streams are relevant, the MSG should identify which LGUs collect these payments. Depending on the national context, payments could be received by states, provinces, regions, municipalities, districts, chiefdoms or other forms of local authority. Where it exists, the MSG should also identify the central government agency responsible for monitoring such payments. This agency can support the MSG in better understanding the applicable revenue streams. Where the MSG concludes that no such payments exist, its approach must be documented (e.g. in MSG meeting minutes, EITI reporting or other disclosures).

CASE STUDY

Democratic Republic of the Congo

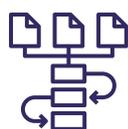
Allocation of shares of mining royalties

The [2018 Mining Code](#) introduced a new system for the allocation of shares of mining royalties at the local level (Art. 242). Extractive companies are required to make payments as follows:

- 50% to the central government;
- 25% to an account identified by the provincial authorities where the extractive company's operations are located;
- 15% to an account identified by the authorities of the decentralised territorial entity (entité territoriale décentralisée, ETD) which has jurisdiction over the area where operations are located;
- 10% to the Mining Fund for future generations.

This distribution of revenues represents a departure from the previous mechanism, where the central government was required to transfer shares to local governments. Several projects led by the EITI and civil society organisations in the DRC aim to shed light on this new system, to identify the challenges in determining which territories are eligible, and to ensure that these large sums are managed responsibly and transparently by local authorities.

See: *ITIE-RDC (2019)*, [Rapport Contextuel ITIE-RDC 2017-2018](#), pp. 80-86; *Makuta Ya Congo (2020)*, [Rapport sur les redevances minières and interactive online map](#).



Step 2

Identify existing disclosures on subnational payments, and determine the significance of these payments

Where the MSG has determined that extractive companies must make payments directly to LGUs, the MSG should next identify existing government and company disclosures on such payments, so as to determine whether payments were effectively made. This information is often available in annual reports, websites or data portals managed by the relevant LGUs or ministry, or in companies' sustainability reports. In reviewing this information, the MSG should assess its comprehensiveness, timeliness, reliability and level of disaggregation.

Next, the MSG should determine whether the payments made in the period under review are considered material and should be disclosed accordingly. This should be undertaken in accordance with the approach outlined under [Requirement 4.1.b](#) on selecting appropriate materiality thresholds. When considering appropriate materiality thresholds, the MSG may wish to take into account the importance of these revenue streams for stakeholders and local communities.

Where the MSG concludes that such payments were not material, its approach must be documented.

CASE STUDY

Sierra Leone

Payments of surface rents to local beneficiaries

Sierra Leone's 2017-2018 EITI Report included data on surface rents paid by three mining companies to land owners, paramount chiefs, district councils, chiefdom councils and constituency development funds. For example, disclosures show that one company, Sierra Rutile Ltd, paid around USD 507,000 to fifteen beneficiaries.

The report clarified that surface rents are negotiated between the companies and the communities. Payment are made either based on surface area or as a lump sum per annum. They are then disbursed to LGUs in accordance with Part 5, Section 34 of the [2009 Mining and Minerals Act](#). The Sierra Leone EITI (SLEITI) [online mapping tool](#) discloses relevant data, such as the chiefdom and district boundaries as of 2017.

Following dissemination activities led by SLEITI in 2020, stakeholders from six mining communities [demanded greater transparency](#) in the collection and use of mining revenues generated from operations in their communities.

| | |
|----------------|---|
| Surface Rental | <p>Surface rent is paid in accordance with part 5, section 34 of the Mining and Minerals Act 2009.</p> <p>This is paid only by entities with mining licence. Surface rents are negotiated between the companies and the communities. There are basically three modes of payments.</p> <p>a) Companies pay the total amount to the District council, which in turn give a portion to the relevant Chiefdom Councils.</p> <p>b) The company pays surface rent to the Chiefdom Administration, which pays part to the District Council.</p> <p>c) The company pays directly to district councils, chiefdom councils and individual landowners according to the formula prescribed by part 5 section 34 of the MMA, 2009.</p> <p>The basis of payment may either be on per km² basis or a lump sum per annum.</p> <p>Formula for distribution:</p> <p>50% - Land owners 15% - Paramount chief. 15% - District Council 10% - Chiefdom Council 10% - Constituency development.</p> |
|----------------|---|

Source: SLEITI (2019), [SLEITI 2017-2018 EITI Report](#), pp. 72-73, 106-107.



Step 3

Disclose disaggregated, timely and reliable data on subnational payments

Data on subnational payments should be disaggregated by extractive company and by LGU. Where there are gaps in data routinely disclosed by government and corporate systems, the MSG should agree a data collection and publication procedure that ensures that comprehensive, disaggregated, timely and reliable data on subnational payments is publicly available.

Where the MSG reconciles payments made by extractive companies and revenues collected by LGUs, practical challenges in associating LGUs to the data collection process should be taken into consideration. The MSG should consider disclosing the data in a way that addresses information needs of different genders and subgroups of citizens.

The MSG should document this approach. The MSG may also wish to task its technical team, a relevant government entity or an independent consultant with developing templates for reporting on subnational payments.

CASE STUDY

Zambia**Annual business fees and property rates paid to local councils and authorities**

In preparing Zambia's [2018 EITI Report](#), the MSG agreed to disclose and reconcile annual business fees and property rates given their importance to the areas served by a local council. Stakeholders from Solwezi, a town located in Zambia's mineral-rich North-Western Province, used EITI data to advocate that 10% of direct payments from mining companies should be earmarked toward social service expenditures. Since then, a by-law has been passed providing for these direct payments. Similar discussions are taking place in other communities, such as Mufulira.

| Local Council | Business Fees (ZMW million) | Property Rates (ZMW million) | Stone Levy (ZMW million) | Manganese Levy (ZMW million) | Total (ZMW million) |
|-----------------------|-----------------------------|------------------------------|--------------------------|------------------------------|---------------------|
| Chilanga Council | 0.02 | 95.12 | - | - | 95.13 |
| Chililabombwe Council | 0.04 | 12.17 | - | - | 12.21 |
| Chingola Council | - | 11.70 | - | - | 11.70 |
| Kabwe council | - | 0.08 | - | - | 0.08 |
| Kafue Council | 0.09 | 0.12 | 1.05 | 0.55 | 1.81 |
| Kalulushi Council | - | 18.05 | - | - | 18.05 |
| Kalumbila Council | - | 20.62 | - | - | 20.62 |
| Kitwe Council | - | 9.13 | - | - | 9.13 |
| Lufwanyama Council | - | 0.94 | - | - | 0.94 |
| Lusaka Council | 0.00 | - | - | - | 0.00 |
| Lusanshya Council | - | 11.28 | - | - | 11.28 |
| Mansa Council | - | - | - | - | - |
| Mazabuka Council | 0.00 | 0.15 | - | - | 0.15 |
| Mufulira Council | 3.42 | 7.50 | - | - | 10.92 |
| Mumbwa Council | - | 0.60 | - | - | 0.60 |
| Ndola Council | - | 5.57 | - | - | 5.57 |
| Siavonga Council | 0.01 | 0.00 | - | - | 0.01 |
| Sinazongwe Council | 0.31 | 1.20 | - | - | 1.51 |
| Solwezi Council | - | 25.32 | - | - | 25.32 |
| Zimba Council | 0.01 | 0.00 | - | - | 0.01 |
| Grand Total | 3.90 | 219.55 | 1.05 | 0.55 | 225.05 |

Source: Zambia EITI (2019), [11th Zambia EITI Report](#), p. 95.



Step 4

Review and analyse disclosures

Based on a review of existing disclosures, the MSG could agree recommendations for the MSG or other stakeholders to address.² These could include:

- If the MSG has agreed work plan objectives related to social development and contributions to local communities, the MSG could consider how the disclosures could be used to help meet these objectives.
- The MSG could formulate recommendations to strengthen reporting on subnational payments by government and corporate systems, including the timeliness of reporting to ensure that local communities are aware of taxes levied by LGUs.
- The MSG could reflect on how to engage the central government in monitoring subnational payments.
- The MSG could agree on how to use disclosures on subnational revenues to inform debates on how extractive revenues are managed and used at the local level.

² Further guidance on developing recommendations from EITI reporting available here: <https://eiti.org/document/guidance-note-on-developing-implementing-monitoring-recommendations-from-eiti-reporting>

Overview of steps: Requirement 5.2

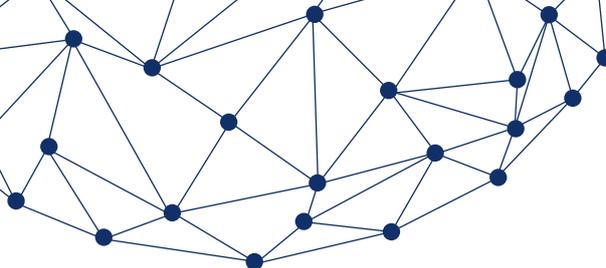
| Steps | Key considerations | Examples |
|--|--|---|
| <p>Step 1: Determine whether resource-related transfers between national government entities and LGUs are mandated (p.18)</p> | <ul style="list-style-type: none"> • Is the national government mandated to make transfers to LGUs based on a law, the regulatory framework, a licence and/or contract? • Which government entities are responsible for collecting these revenues from companies? Which government entities are responsible for redistributing shares of these revenues? • Which LGUs are entitled to receive these payments? | <ul style="list-style-type: none"> • Colombia |
| <p>Step 2: Identify the statutory revenue-sharing formula and calculate the amounts that should be transferred (p.20)</p> | <ul style="list-style-type: none"> • Does the legal and regulatory framework provide a clear statutory revenue-sharing formula? What are the corresponding statutory shares per LGU (in percentages)? • Based on the revenue-sharing formula and total revenues collected at the central level, what are the amounts that should be transferred at the local level, disaggregated by LGU? | <ul style="list-style-type: none"> • Madagascar |
| <p>Step 3: Identify existing disclosures of subnational transfers, and determine the transfers' significance (p.21)</p> | <ul style="list-style-type: none"> • Do central government entities disclose this information systematically? • Did government entities at the central level make transfers in accordance with the legal and fiscal framework in the period under review? • What is the adequate reporting threshold for government entities and, where possible, can LGUs disclose information given the national context? | <ul style="list-style-type: none"> • Papua New Guinea |

EITI REQUIREMENTS 4.6 AND 5.2

Subnational payments and transfers

Guidance Note

| Steps | Key considerations | Examples |
|--|--|---|
| <p>Step 4: Disclose transfers from national government entities to LGUs and identify discrepancies (p.22)</p> | <ul style="list-style-type: none"> • Has the MSG agreed reporting templates to collect data from government entities and LGUs? • Are there specific challenges in associating LGUs to the data collection process? • Is the MSG disclosing data through EITI reporting? Has the MSG identified any discrepancies between effective transfers and statutory entitlements, if any? | <ul style="list-style-type: none"> • Mongolia |
| <p>Step 5: Review and analyse information on subnational transfers (p.24)</p> | <ul style="list-style-type: none"> • Where data is systematically disclosed by government agencies, what data quality assurance mechanisms is it subject to? Where data is disclosed through EITI reporting, has the MSG agreed a procedure to strengthen its reliability? What is the MSG's assessment of the reliability of disclosures? • Can the MSG investigate any discrepancies between effective transfers and statutory entitlements and formulate recommendations to address them? | <ul style="list-style-type: none"> • Mali |
| <p>Step 6: Report on how earmarked revenues are managed and disbursed (p.25)</p> | <ul style="list-style-type: none"> • Does the legal and regulatory framework earmark extractive revenues at the local level for specific programmes or investments? If yes, how are these revenues effectively managed and disbursed by LGUs? • What additional analysis should be undertaken to respond to the broader objective of the requirement and stakeholders' interests? • What recommendations can the MSG agree to address the findings of the analysis? | <ul style="list-style-type: none"> • Peru • Nigeria |



Requirement 5.2: Subnational transfers

The objective of the requirement is to enable stakeholders at the local level to assess whether the transfer and management of subnational transfers of extractive revenues are in line with statutory entitlements.³

- a) Where transfers between national and subnational government entities are related to revenues generated by the extractive industries and are mandated by a national constitution, statute or other revenue sharing mechanism, the multi-stakeholder group is **required** to ensure that material transfers are disclosed. Implementing countries **should** disclose the revenue sharing formula, if any, as well as any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount that was transferred between the central government and each relevant subnational entity. The multi-stakeholder group is **encouraged** to agree a procedure to address data quality and assurance of information on subnational transfers, in accordance with [Requirement 4.9](#). Where there are constitutional or significant practical barriers to the participation of subnational government entities, the multi-stakeholder group **may** seek adapted implementation in accordance with Article 1 of the EITI Board's procedures for oversight of EITI implementation in Section 4 of the EITI Standard.
- b) The multi-stakeholder group is **encouraged** to ensure that any material discretionary or ad-hoc transfers are also disclosed, and agree a procedure to address data quality and assurance of information on such transfers, in accordance with [Requirement 4.9](#).
- c) The multi-stakeholder group **may** further wish to report on how extractive revenues earmarked for specific programmes or investments at the subnational level are managed, and actual disbursements.

3 EITI (2021), *Validation Guide*, <https://eiti.org/document/2021-eiti-validation-guide#req52>.



Step 1

Determine whether resource-related transfers between national government entities and LGUs are mandated

The MSG should determine whether the legal, regulatory and fiscal framework mandates the central government to make transfers of extractive revenues to LGUs. The MSG might wish to refer to information on the legal framework and fiscal regime governing the extractive industries set out under [Requirement 2.1](#), which should include the level of fiscal devolution.

The MSG should identify:

- The legal, regulatory and/or fiscal instruments that govern subnational transfers, e.g. Constitution, law, decree, contract;
- The relevant revenue streams, e.g. royalties;
- The central government entities that are responsible for collecting these revenues from extractive companies, e.g. the tax authorities; and the central government entities that are responsible for distributing the shares at the subnational level, e.g. the Treasury.
- The LGUs that are eligible for receiving such shares, e.g. states, provinces, regions, municipalities, districts, chiefdoms.

These mechanisms can be complex. MSGs are encouraged to map out the different actors and stages in the process using infographics and user-friendly tools.

CASE STUDY

Colombia

The General System of Royalties (SGR)

Colombia's Sistema General de Regalías (SGR, General royalties system) sets out [extractive revenue allocations](#) to local projects. Through the SGR, revenues were previously allocated to six thematic funds, which local governments could apply for to obtain funding for specific projects. However, the process to apply and obtain funds was complex and difficult for users to navigate. Local actors lacked an understanding of how much their respective LGUs could benefit from. Recent EITI reporting has sought to clarify the complex functioning of the SGR.



In September 2020, the government introduced a [new law](#). With this reform, municipalities and departments will have more autonomy to manage royalty shares (totalling of USD 4.2 million). A larger portion of these revenues will be distributed to poorer regions and, for the first time, royalties will be directed to environmental protection, with 5% allocated specifically to conservations areas and fight against deforestation.

Following the introduction of this revised system, the EITI in Colombia has the opportunity to explain the key changes and support effective reporting of these revenue transfers to stakeholders and citizens.

Source: EITI Colombia (2019), *Informe EITI Colombia 2018*, "[Sistema General de Regalías \(SGR\)](#)".



Step 2 Identify the statutory revenue-sharing formula and calculate the amounts that should be transferred

Based on a review of the existing legal and regulatory framework, including publicly available contracts, the MSG should identify whether a statutory revenue-sharing formula for subnational transfers exists. Often, these formulas determine a percentage or share of revenues that should be transferred at to LGUs. However, some revenue-sharing formulas can be complex. They may vary across regions, for example based on the contribution of each LGU to the overall production of commodities.

Where the MSG has identified an existing revenue-sharing formula, the MSG should calculate the amounts that should be transferred to the local level for the period under review, disaggregated by LGU. The timely disclosure of such information is key for local governments to plan their budgets accordingly.

Where such a formula does not exist but transfers were made, the MSG should document how the shares are calculated by the central government. For instance, revenue transfers may be determined based on companies' activity reports, a finance law or the government budget, or calculated on a monthly rather than annual basis.

CASE STUDY

Madagascar Transfers of shares of “ristournes”

EITI implementation in Madagascar has emphasised the importance of reporting on transfers of shares of mining revenues (“ristournes”, derived from mining royalties) at the local level, in particular for communities, or communes, affected by large mining projects. In an addendum to its 2018 EITI Report, the MSG provided the theoretical amounts that should have been transferred by the Treasury to three communes and one region affected by ilmenite producer QIT Madagascar Minerals SA (QMM SA), a subsidiary of Rio Tinto.

Répartition théorique des ristournes payés par QMM SA en 2018

| | | | Pourcentage | Montant (en MGA) |
|-------------------------------------|-----------------------|-------------------|-------------|------------------|
| Ristournes 2018 | | | 100.00% | 5,293,116,048.00 |
| Quotes-parts de chaque bénéficiaire | | | | |
| Fond National de Péréquation | | | 10.00% | 529,311,604.80 |
| CTD (90%) | Communes (60% de 90%) | Ampasy Nahampoana | 32.50% | 1,548,236,444.04 |
| | | Mandromondromotra | 17.50% | 833,665,777.56 |
| | | CU Fort-Dauphin | 17.50% | 833,665,777.56 |
| | Région (30% de 90%) | Anosy | 32.50% | 1,548,236,444.04 |

Source : Canevas de déclaration QMM SA, exercice 2018

Source: ITIE Madagascar (2019), [Addendum au Rapport ITIE 2018](#), p. 9.



Step 3

Identify existing disclosures of subnational transfers, and determine the transfers' significance

The MSG should identify existing government and company disclosures of subnational transfers. The MSG can then determine whether the central government made transfers to LGUs in accordance with the revenue-sharing formulas in the period under review. The MSG might wish to consult the Ministry of Finance, sector-specific ministries and/or the Treasury for information on existing disclosures.

The MSG should then agree on setting a reporting threshold for disclosing such data, drawing on the methodology agreed by the MSG on selecting material revenue streams (see [Requirement 4.1.b](#)). Depending on the national context and the significance of such revenues for local communities, the MSG might decide that subnational transfers should be disclosed without setting a materiality threshold. Extractive companies might also wish to know the value of revenues transferred to the LGUs where they operate. However, MSGs might wish to take into account challenges in associating LGUs to the reporting process. For example, data collection might take more time where LGUs use a paper-based accounting system or experience connectivity issues. Ensuring that stakeholders in LGUs have a good understanding of the EITI process and can participate often require significant resources.

CASE STUDY

Papua New Guinea Oil and gas royalties and development levies

In a scoping study on subnational payments and transfers in PNG's extractive sector, the majority of stakeholders consulted agreed that all subnational payments and transfers should be disclosed without setting a materiality threshold. They argued that "Regardless of the amount, people want to know what is happening with [those public funds]." The report drew from the PNG EITI's methodology for setting materiality thresholds for revenue streams to set out recommendations for subnational revenues, recommending the following criteria:

- Quantitative materiality for subnational reporting set at K20,000 for provincial government entities and K50,000 for non-government entities;
- Qualitative materiality is defined as "those subnational revenue/payment streams that are considered important or potentially important to subnational stakeholders and citizens" (...).

Source: PNGEITI (2019), [Subnational Payments in Papua New Guinea's Extractive Sector](#), pp. 114-116.



Step 4

Disclose transfers from national government entities to LGUs and identify discrepancies

Once the MSG has identified the amounts that should have been transferred based on the revenue-sharing formula, it should disclose the amounts that were effectively transferred. The MSG should then identify any discrepancies between statutory shares and effective transfers, disaggregated by LGU.

This data should be disclosed in a timely manner and consider the information needs of different genders and subgroups of citizens. This information can help local public officials and communities understand whether they are receiving the revenues they are entitled to. This can further enable them to hold the central government to account should there be any discrepancies.

Where discrepancies are identified, MSGs might wish to identify the reasons underlying these discrepancies and formulate recommendations to address them (see [Steps 5](#) and [6](#)).

CASE STUDY

Mongolia

Allocations to the Local Development Fund

Mongolia's General Local Development Fund (GLDF) consists of shares of VAT of goods and services, mineral resource royalties, oil resource royalties, and grants and donations. Shares of the GLDF are transferred to 21 provincial governments, or aimags, via their Local Development Fund (LDF).

EITI reporting has sought to clarify the parameters used to calculate the revenue-sharing formula for each subnational transfer, including local development index, population and tax coverage index. Mongolia's 2016 EITI Report included calculations for planned subnational transfers for each aimag. It revealed that there were no discrepancies between planned revenues and actual transfers to the aimags' LDFs.

| Planned allocation from the mineral resource royalties | | | | | | | Planned and actual transfers to the Local Development Fund at aimag level | | | | | |
|--|---------------|--|------------------------|------------------------------------|-------------------------|---|---|--|--|---|---|--|
| Aimags | Pop. /k/ | Per Capita | Mineral Res. Royalties | Weighted Per Capita | Allocat'n Based on Pop. | Deducted Percentage | I. Planned Allocat'n from Mineral Resources Royalties | II. Total Planned Allocat'n Based on 4 Indicators (previous table) | III. Total Planned Allocat'n from GLDF I+II. | IV. Total Planned Allocat'n from State Budget (mega project and exp. licence) | Total Planned Allocat'n from GLDF and State Budget to LDF at aimag level III+ IV. | Actual Transfer from GLDF and State Budget to LDF at aimag level |
| MNT m | A | B | C | D | E | F | E*(1-F) | | | | | |
| | | mrr ¹ / A _{total} | | B*(1+C/C _{total} *10%) | D*A | 1- (mrr ¹ /E _{total}) | | | | | | |
| Arkhangai | 93.1 | 4.2 | 0 | 4.2 | 396.8 | 13.52% | 343.2 | 2,671.2 | 3,014.4 | 186.1 | 3,179.9 | 3,179.9 |
| Bayan-Ulgii | 95.2 | 4.2 | 0.9 | 4.3 | 411.2 | 13.52% | 355.6 | 2,234.9 | 2,590.5 | 676.8 | 3,260.1 | 3,260.1 |
| Bayankhongor | 83.0 | 4.2 | 1.4 | 4.3 | 361.2 | 13.52% | 312.3 | 3,134.0 | 3,446.3 | 1,319.0 | 4,737.8 | 4,737.8 |
| Bulgan | 60.5 | 4.2 | 0.6 | 4.2 | 260 | 13.52% | 224.8 | 2,366.2 | 2,591.0 | 973.8 | 3,550.5 | 3,550.5 |
| Gobi-Altai | 56.7 | 4.2 | 2.6 | 4.4 | 250.5 | 13.52% | 216.6 | 3,267.4 | 3,484.0 | 2,153.3 | 5,693.7 | 5,693.7 |
| Dornogobi | 63.8 | 4.2 | 1.7 | 4.3 | 278.5 | 13.52% | 240.9 | 2,750.0 | 2,990.9 | 2,591.1 | 5,579.9 | 5,579.9 |
| Dornod | 75.2 | 4.2 | 0.7 | 4.3 | 324 | 13.52% | 280.2 | 2,833.7 | 3,113.9 | 1,037.1 | 4,140.6 | 4,140.6 |
| Dundgobi | 44.4 | 4.2 | 1.2 | 4.3 | 192.4 | 13.52% | 166.4 | 2,600.9 | 2,767.3 | 1,359.2 | 4,114.7 | 4,114.7 |
| Zavkhan | 69.7 | 4.2 | 2.8 | 4.4 | 308.9 | 13.52% | 267.1 | 2,665.0 | 2,932.1 | 1,211.5 | 4,185.8 | 4,185.8 |
| Uvurkhangai | 113.0 | 4.2 | 0.1 | 4.2 | 482.5 | 13.52% | 417.3 | 2,790.2 | 3,207.5 | 254.5 | 3,444.4 | 3,444.4 |
| Umnugobi | 59.7 | 4.2 | 156.9 | 13.7 | 816.2 | 13.52% | 705.8 | 3,100.7 | 3,806.5 | 17,722.8 | 21,515.0 | 21,515.0 |
| Sukhbaatar | 57.4 | 4.2 | 10.6 | 4.9 | 281.3 | 13.52% | 243.3 | 2,604.1 | 2,847.4 | 4,846.1 | 7,681.2 | 7,681.2 |
| Selenge | 106.2 | 4.2 | 11.8 | 4.9 | 527.8 | 13.52% | 456.5 | 2,245.4 | 2,701.9 | 2,186.5 | 4,887.3 | 4,887.3 |
| Tuv | 90.1 | 4.2 | 7.1 | 4.7 | 422.4 | 13.52% | 365.3 | 2,353.4 | 2,718.7 | 3,584.1 | 6,300.9 | 6,300.9 |
| Uvs | 75.8 | 4.2 | 0.1 | 4.3 | 323.6 | 13.52% | 279.9 | 2,526.4 | 2,806.3 | 241.8 | 3,040.6 | 3,040.6 |
| Khovd | 81.5 | 4.2 | 0.3 | 4.3 | 348.6 | 13.52% | 301.5 | 2,749.7 | 3,051.2 | 596.6 | 3,641.1 | 3,641.1 |
| Khuvsgul | 126.0 | 4.2 | 0 | 4.3 | 537.1 | 13.52% | 464.5 | 2,825.9 | 3,290.4 | 113.0 | 3,395.6 | 3,395.6 |
| Khentii | 71.2 | 4.2 | 0.9 | 4.5 | 320.3 | 13.52% | 277.0 | 2,677.1 | 2,954.1 | 1,477.7 | 4,417.2 | 4,417.2 |
| Darkhan-Uul | 99.9 | 4.2 | 2.3 | 4.4 | 439.5 | 13.52% | 380.1 | 1,912.2 | 2,292.3 | 920.9 | 3,295.3 | 3,295.3 |
| Ulaanbaatar | 1,363.0 | 4.2 | 1.9 | 4.3 | 5,971.70 | 13.52% | 5,165.3 | 8,457.2 | 13,622.5 | 772.1 | 14,393.7 | 14,393.7 |
| Orkhon | 94.4 | 4.2 | 183.5 | 15.3 | 1,447.40 | 13.52% | 1,246.5 | 2,296.0 | 3,542.5 | 35.6 | 3,562.0 | 3,562.0 |
| Gobisumber | 16.1 | 4.2 | 0.8 | 4.3 | 69.4 | 13.52% | 60.1 | 1,824.9 | 1,885.0 | 352.1 | 2,227.4 | 2,227.4 |
| Total | 2995.9 | 92.4 | 388.2 | 116.2 | 14771.3 | | 12,770.20 | 62,886.50 | 75,656.70 | 44,611.70 | 120,267.70 | 120,267.70 |

Source: Mongolia EITI (2017), *Mongolia Eleventh EITI Reconciliation Report 2016*, p. 103.



Step 5

Review information on subnational transfers, focused on data reliability and discrepancies

By checking whether declaring entities adhere to the MSG's agreed procedure for data quality assurance, the MSG can provide an assessment of the reliability of disclosures. Several mechanisms are possible depending on the national context and the existing system for subnational transfers. For instance, the MSG could check what auditing practices apply to transactions made by the Treasury, where the latter is responsible for effectuating transfers to LGUs.

Where possible, the MSG might wish to reconcile data disclosed by the central government agencies with data disclosed by LGUs, to identify any discrepancies. This methodology can help understand practical challenges related to the timeliness of transfers, e.g. absence of adequate bank accounts for local governments to receive revenues, lengthy procedures to see them approved at the central level, or revenues paid out in subsequent years. The MSG might wish to formulate recommendations to address such disclosure gaps and practical obstacles.

Where there are constitutional or practical barriers that hinder the participation of LGUs, the MSG could consider seeking adapted implementation in accordance with [Section 4, Article 1](#) of the EITI Standard.

CASE STUDY

Mali

Transfers of shares of “patentes” in mining communities

In Mali, companies in all sectors must pay *patentes*, a share of which are then transferred at the local level. Payments from mining companies make up a significant amount of total *patentes* at the local level. The Mali EITI made it a priority to disclose detailed information about these transfers to mining regions, given considerable public interest and the significance of this revenue stream for local governments' budget.

In addition to highlighting the discrepancy between statutory shares and effective transfers in its 2016 EITI Report, Mali attempted to reconcile this data with revenues received as reported by local municipalities. The report identified challenges in reconciliation and outlined concrete recommendations to improve reporting by LGUs going forward. The report noted that the *patentes* paid by mining companies and subcontractors make up the majority of local authorities' revenues.

Sources: *ITIE Mali (2020)*, [Étude sur la traçabilité des revenus miniers au niveau des collectivités territoriales au Mali](#). See also: *EITI International Secretariat (2019)*, [“Initial Assessment for the Second Validation of Mali”](#), pp. 18-20; *PWYP Mali (2017)*, [Étude sur la répartition des patentes dans les régions minières de Kayes et Sikasso](#) (...).

CASE STUDY

Burkina Faso

Local mining development funds in mining communities

To centralise the collection and transfer of extractive revenues to local communities, Burkina Faso's government established a fund (Fonds Minier de Développement Local) intended to finance regional and local development plans. The fund collects a 1% share of monthly revenues from mining companies and 20% of the royalties collected by government.

Burkina Faso's 2019 EITI Report highlights discrepancies between the revenues that were owed and paid. It also documents several legal disputes between the government and companies that had not transferred expected shares in accordance with a 2017 decree.

In June 2020, Burkina Faso's Court of Auditors published a report to ascertain whether the funds were properly allocated and managed. It identified weaknesses in the revenue sharing mechanism and provided a number of recommendations to improve the management of mining revenues owed to regional and local authorities. EITI reporting has helped to shed light on issues related to the fund, and has subsequently informed national media and public debate.

Sources: *ITIE Burkina Faso (2021)*, [Rapport ITIE 2019; Cour des comptes \(2020\)](#), [Audit de performance de la collecte, la répartition et la gestion des revenus miniers \(...\)](#).



Step 6

Where possible, report on how earmarked revenues are managed and disbursed

Beyond determining whether transfers were made at the local level were effectively made, local communities are particularly interested in information around how these revenues are used and managed. Revenues might be earmarked for specific expenditures, such as programmes or investments, depending on the regulatory framework. For example, a percentage might be allocated to developing public infrastructure, and a more limited share can be allocated to recurring operational costs on an annual basis.

Communities might wish to know whether revenues are allocated accordingly and contribute to sustainable local development. Thus, they can use this data to hold local public officials accountable for the management of extractive revenues. The MSG might wish to consult relevant stakeholders to undertake additional analysis and formulate recommendations to improve revenue-sharing mechanisms.

CASE STUDY**Nigeria****Community perceptions of subnational revenue allocations**

The Constitution of Nigeria assigns 13% of oil revenues to derivation funds for the benefit of oil producing regions. Nigeria EITI conducted a study to examine how revenue allocations were perceived by local communities in the oil producing states of Delta, Imo and Ondo, specifically in terms of their impact on local development.

The study revealed that communities found these revenues to be opaque, which prevented them from holding their local governments to account. They also indicated that there was a top-down approach to community development, governance deficits in development commissions, and an absence of sustainability plans for projects. The study issued a set of recommendations for local governments, civil society and communities.



13% DERIVATION FUNDS:

State oil producing areas
development commissions were
scored low by majority of the
communities

Source: Nigeria EITI (2020), [Perception of the impact of 13% oil derivation allocation in Nigeria](#).

CASE STUDY

Peru

Local expenditures of subnational transfers

Following a 2004 law on fiscal decentralisation, the Government of Peru established a complex system of subnational transfers. The revenues transferred to local governments are based on intricate revenue-sharing formulas, which take into consideration production figures, population size and a “basic needs index” for each region and municipality.

Peru has established local multi-stakeholder groups in five regions, including Arequipa. In its 2016 EITI Report, the provincial government of Arequipa disclosed how much of their extractive revenue shares were invested in expenditures related to transport, culture and sports, and environment.

MUNICIPALIDAD PROVINCIAL DE AREQUIPA

Estas son las principales funciones en las que la Municipalidad Provincial de Arequipa invirtió entre el 2009 y el 2016.



| TRANSPORTE | |
|-------------------------|---------|
| Monto en miles de soles | % Canon |
| 202,333 | 12.1 % |

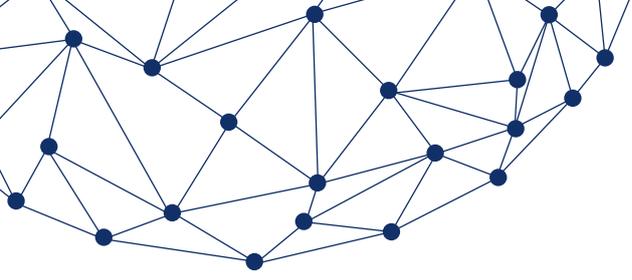


| CULTURA Y DEPORTE | |
|-------------------------|---------|
| Monto en miles de soles | % Canon |
| 45,411 | 12.9 % |



| AMBIENTE | |
|-------------------------|---------|
| Monto en miles de soles | % Canon |
| 29,940 | 16 % |

Source: EITI Perú (2018), [Primer estudio de transparencia regional EITI Arequipa](#), p. 63; EITI Perú (2020), “EITI MOQUEGUA” (video).



Further resources

- EITI International Secretariat (2020), *Empowering communities in EITI implementing countries to participate in the oversight of the extractive sector*, <https://eiti.org/document/empowering-communities-in-eiti-implementing-countries-to-participate-in-oversight-of>
- NRGi (2018), *Subnational Revenue Distribution*, https://resourcegovernance.org/sites/default/files/documents/nrgi_primer_subnational-distribution.pdf
- NRGi (2016), *It Takes a Village: Routes to Local-level Extractives Transparency*, <https://resourcegovernance.org/analysis-tools/publications/it-takes-village-routes-local-level-extractives-transparency>
- World Bank (2011), *Implementing EITI at the Subnational Level*, <https://eiti.org/document/implementing-eiti-at-subnational-level>



Extractive Industries
Transparency Initiative

Rådhusgata 26
0151 Oslo
Norway

+47 222 00 800
secretariat@eiti.org
eiti.org