February 2012

A Proposal for a Rating Scheme for the EITI Standard

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Final draft

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Acronyms and abbreviations

APRM	Africa Peer Review Mechanism
CPI	Corruption Perception Index
DB	Doing Business
EITI	Extractive Industries Transparency Initiative
IBP	International Budget Partnership
IMF	International Monetary Fund
MSG	Multi-stakeholder Group
OBI	Open Budget Index
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SWG	Strategic Working Group
UNCAC	United Nations Convention Against Corruption

Executive Summary

The question has been raised whether current implementation of the Extractive Industries Transparency Initiative (EITI) standard remains based on the EITI Criteria rather than the EITI Principles. In response, the EITI International Board has set up a Strategic Working Group, charged with making recommendations regarding the strategic direction of EITI, including a review of the EITI Principles, Criteria, and scope, as well as the system for assessing EITI implementation and considering a rating system for the EITI standard.

The purpose of this assignment has been to develop a proposal for such a rating scheme. The scheme should maintain the core EITI Requirements as the minimum standard, but reward high quality EITI processes and reports and complementary actions agreed by implementing countries to realize the EITI Principles. It is envisaged that the proposal will contribute towards the wider EITI Board discussion on the strategic direction for the EITI over the next three to five years.

The design of the proposed rating scheme is based on the pros and cons of several established rating schemes. Most of the reviewed schemes introduce some form of performance rating and include a narrative report to supplement the score. Often, a questionnaire is used for the assessment, taking the form of a self-assessment. Several schemes strive for transparent and objective rating mechanisms verifiable through publicly information. Some have introduced an element of peer review. In terms of weighting, none of the reviewed schemes have opted for variable indicator weights, but rather selected schemes that put equal weights on all indicators or, as an alternative, give a letter grade that cannot be aggregated.

The proposed scheme clearly distinguishes the roles between the various actors involved: the multi-stakeholder group fills out a self-assessment, prepares an EITI progress report, and ensures a broad participatory approach with stakeholders in-country; the International Secretariat performs the role of an independent international expert team, reviews the questionnaires to ensure quality and consistency, performs the rating, and prepares a narrative report following a standard format for all implementing countries; and the EITI Board approves the entire rating and validation process, publishes the report, and implicitly provides the final sign-off by peers.

The proposal aims to be as simple as possible, suggesting that a total of around 30 development-oriented indicators are designed under four separate categories, incorporating the core EITI Requirements and equipped with a catalogue of stylized practices ranging from poor practice to model behavior and be rated objectively on a scale from 1 to 5. To maintain primacy on the EITI Requirements and maintain a minimum standard, a score of no less than 3 for each of the EITI Requirement indicators should be expected to become Compliant.

There is broad-based support among the EITI stakeholders for encouraging implementing countries to go beyond compliance by undertaking additional work to improve transparency, accountability, and stakeholder collaboration. Hence, when designing the indicators, particular focus should be put on rewarding improved EITI reporting, effective communication and MSG governance, and expanding the scope of EITI. Some of the basic issues that define a robust and sustainable Extractive Industries Value Chain should be taken into consideration and indicators should draw on the IMF's Guide on Resource Revenue Transparency, which lists a series of resource-specific good practices.

Introduction

1. In a recent evaluation of the Extractive Industries Transparency Initiative (EITI)[1], the question was raised whether the Initiative adequately delivers against its Principles. The evaluation team suggests that the scope of the EITI is too narrow in relation to the Principles and that: "Current implementation of the EITI standard remains based on the EITI Criteria rather than the EITI Principles".[2] Furthermore, the team proposes that gradually narrowing the gap between the EITI Principles and Criteria may be fundamental for continued EITI relevance and future impact. "The main recommendation is thus for EITI to consider a standard that covers a greater part of the value chain in the sector, combined with a flexible rating scheme that would grade actual performance rather than giving a Yes/No value."[3]

2. In line with the evaluation team's proposal, the EITI International Board set up a Strategic Working Group (SWG), charged with making recommendations regarding the strategic direction of EITI for the next three to five years, including a review of the EITI Principles, Criteria, and scope, as well as the system for assessing EITI implementation and considering a rating system. In a recent Discussion Paper presented by the SWG to the EITI Board, the EITI International Secretariat, having explored these possibilities in more detail, suggests that a scoring system be developed, which "clearly recognizes countries that extend EITI implementation beyond the EITI Criteria in accordance with the EITI Principles".[4] Such a system would complement a decision to maintain the core EITI Requirements as the EITI minimum standard.

Purpose of the assignment

3. The purpose of this assignment is to develop a proposal for a rating scheme for the EITI standard. The rating scheme should maintain the core EITI Requirements as the minimum EITI standard, but be designed to reward high quality EITI processes and reports, and complementary actions agreed by implementing countries to realize the broader EITI Principles. It is envisaged that the proposal will contribute towards the wider EITI Board discussion on the strategic direction for the EITI over the next three to five years.

Background

4. Since the evaluation of the EITI, several stakeholders have emphasized the need for consolidation by improving the quality of EITI reports and the extent to which they can be used to engage a wide range of audiences in the governance of the extractive industries, while others have offered proposals that would fundamentally alter the objectives and

[1] Scanteam (2011) Achievements and Strategic Options: Evaluation of the Extractive Industries Transparency Initiative. Final Report. Oslo. May 2011. Source: http://eiti.org/files/2011-EITI-evaluation-report.pdf

[2] Scanteam (2011) p. 48.

[3] Scanteam (2011) p. 1.

[4] EITI International Secretariat (2011) Board Paper 18-10, Strategy Working Group: Discussion Paper. Oslo. October 2011.

scope of the EITI.[5] It has also been argued that the validation process only verifies that certain minimum criteria have been met and does not adequately incentivize countries to deliver against the broader EITI Principles. Another weakness of the current validation is that it does not recognize progress made in implementing the EITI by countries that are not yet Compliant.

5. There appears to be broad-based support for encouraging implementing countries to go beyond compliance by undertaking additional work to improve transparency, accountability, and stakeholder collaboration.[6] There also appears to be wide support for incentivizing countries to undertake complementary actions agreed by the national multi-stakeholder group (MSG) to realize the broader EITI Principles. In short, two main proposals have emerged for how the above objectives can be achieved:

   i. Broaden the scope of the EITI Criteria and/or the EITI Requirements so that other links in the Extractive Industries Value Chain[7] become part of the EITI minimum standard; and

   ii. Retain the current focus, while recognizing, encouraging, and incentivizing countries to undertake additional work to improve transparency, accountability, and stakeholder collaboration along the Extractive Industries Value Chain.

6. In response to these proposals, the EITI International Secretariat suggests in the SWG Discussion Paper to follow the second line of thoughts and introduce a rating scheme for the EITI standard, which to a greater extent recognizes and incentivizes good performance by implementing countries. Under this scheme, the majority of the current requirements would be unaffected. However, the quality assurance requirements would be modified and validation would be replaced by a continuous annual assessment. Furthermore, the annual assessment would not only determine whether the minimum requirements are met, but also score the country’s performance beyond meeting these requirements. According to the proposal, the EITI International Secretariat would be responsible for the assessment, drawing on EITI reports, annual progress reports from MSGs, and potentially a quality assurance process that could incorporate elements of peer review. Similarly to the current validation process, the Board would make the final decisions regarding a country’s status, as well as its score.

7. The advantages of this proposal is that the formal goalposts would not change, although the new system would allow for a more detailed assessment of EITI implementation and reward countries that go beyond the minimum requirements to meet the EITI Criteria.

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[5] “Is the EITI working? Have your say on the EITI Evaluation”. EITI Blog. 4 July 2011. http://eiti.org/blog/eiti-working-have-your- say-eiti-evaluation

[6] EITI International Secretariat (2011) Board Paper 18-10, Strategy Working Group: Discussion Paper. Oslo. October 2011.

[7] The Extractive Industries Value Chain encompasses “awarding contracts and licenses, regulation and monitoring of operations, collection of taxes and royalties, revenue management and allocations, and implementation of sustainable development policies and projects”. http://siteresources.worldbank.org/INTOGMC/Resources/ei_for_development_3.pdf

Hence, the proposal is fully aligned with the EITI Rules 2011 edition, which states that "Compliant country multi-stakeholder groups are encouraged to explore innovative approaches to extending EITI implementation to increase the comprehensiveness of EITI reporting and public understanding of revenues and encourage high standards of transparency and accountability in public life, government operations, and in business"[8].

Established rating schemes

8. In an effort to draw lessons from similar processes, six established rating schemes are reviewed in this document. These schemes are: Public Expenditure and Financial Accountability (PEFA), African Peer Review Mechanism (APRM), United Nations Convention Against Corruption (UNCAC) Review Group, Open Budget Index (OBI), Corruption Perception Index (CPI), and Doing Business (DB).

9. Most of these rating schemes introduce some form of performance rating and include a narrative report to supplement the score. Often, a questionnaire is used for the assessment and in several instances the questionnaire takes the form of a self-assessment. Several of the rating schemes strive for transparent and objective rating mechanisms that can be verified through publicly available information. Some have also introduced an element of peer review. In terms of weighting, none of the reviewed schemes have opted for variable indicator weights, but rather selected schemes that put equal weights on all indicators or, as an alternative, give a letter grade that cannot be aggregated. A brief summary of some key characteristics of the reviewed rating schemes is presented in Table 1 below. For a detailed description of the individual schemes, see Annex 1.

10. ***PEFA:*** The PEFA assessment provides reliable information on the performance of country public financial management (PFM) systems, processes, and institutions over time, contributing to government reform processes by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success. The objective of this approach is to mainstream the better practices that are applied in some countries.

11. The objectivity of the PEFA scoring system, the independence of the international evaluators, and the involvement of the PEFA Secretariat are factors that make the framework well suited as a model of nuanced scoring for rating the EITI standard. Repetitive processes allow for measuring improvements over time for specific indicators, although the use of a letter grading system makes it difficult to compare progress over time between indicators as well as compare progress between countries without knowing the relative weight of each indicator.[9] When attempting to design a new rating system, it should also be noted that it has been a time consuming process to establish the PEFA standard and agree on key dimensions, get consensus on principles, and develop the

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[8] http://eiti.org/files/EITI_Rules_Validations_April2011.pdf, p.32.

[9] These issues are acknowledged and further analyzed in a paper published by the PEFA Secretariat (2009) "Issues in Comparison and Aggregation of PEFA Assessment Results Over Time and Across Countries", PEFA Secretariat.

specific indicators and their ratings.

Table 1. Characteristics of selected rating schemes

Index/Characteristics	Questionnaire	Rating	Peer review process	Self-assessment	Narrative report
PEFA	No	Yes	No	Possible alternative	Yes
APRM	Yes	No	Yes	Yes	Yes
UNCAC	Yes (checklist)	No	Yes	Yes	Yes
OBI	Yes	Yes	Yes	No	Not for individual countries
CPI	No	Yes	No	No	Not for individual countries
DB	Yes	Yes (ranking)	No	No	Selected themes, regions, or case studies

12. ***APRM:*** The APRM is an African self-monitoring mechanism where compliance against measurable objectives and ratification and implementation of certain standards and codes are assessed. The Mechanism is intended to foster the adoption of policies, standards, and practices that lead to political stability, economic growth, sustainable development, and accelerated economic integration through sharing of experiences and reinforcement of successful and best practice.

13. Some features of the APRM could serve as model for assessing activities beyond basic EITI compliance. It is suitable in that a team of experts conducts the review, and only the final sign-off is by peers, which in the case of the EITI could be the International Board. The detailed self-assessment questionnaire of the APRM is also a suitable feature, but a lengthy process makes the exercise costly and difficult to repeat. Moreover, the lack of measurable indicators to be measured against does not allow for objective comparison over time and between countries.

14. ***UNCAC:*** The Mechanism for the Review of Implementation of the UNCAC has been adopted to review implementation of selected UNCAC Articles and to assist states parties in their implementation of the Convention, which aims to prevent and combat corruption as well as promote integrity, accountability, and proper management of public affairs and public property.

15. The UNCAC review process, including the completion of a comprehensive self-assessment checklist, consultation of stakeholders at the national level, as well as the desk review by peers, are elements that could serve as model for the EITI rating system.[10] In addition, the appointment of a national focal point and experts are also aspects that may be suitable. However, the lack of measurable indicators would not allow for objective comparison of EITI implementation over time and between countries. Finally, the exclusion of civil society in the process directly defeats the purpose of the EITI multi-stakeholder set up.

16. ***OBI:*** The Open Budget Survey is a comprehensive analysis and survey developed by the International Budget Partnership (IBP) that evaluates whether governments give the public access to budget information and opportunities to participate in the budget process at the national level. Several features of the OBI would be suitable for a potential rating scheme of the EITI standard. Such examples include the concept of measuring, on a biennial basis, commitment of the participating countries to transparency, using a detailed questionnaire; creating an index to allow for comparisons among countries; conducting peer reviews to ensure validity and objectivity of the results; and complementing the review process by IBP staff reviews to ensure consistency. Furthermore, the aspect of using information in the survey that is already in the public domain strengthens the objectivity of the rating system.

17. ***CPI:*** The CPI ranks countries according to their perceived levels of public sector corruption, drawing on different assessments and business opinion surveys carried out by independent and reputable institutions. As the CPI ranks only one specific indicator—the overall extent of corruption—it does not serve as a particularly good example for rating various aspects of EITI implementation. However, the use of exogenous sources—to the extent that other institutions already rate potential EITI indicators—is an attractive feature for the EITI rating scheme, which could strengthen objectivity of the system. The CPI ranking also means that performance can be compared over time and across countries, although the use of a ranking as compared to a rating system means that the measure is relative and not absolute.

18. ***DB:*** Doing Business is an annual report prepared by the World Bank, investigating the regulations that enhance business activity and those that constrain it. The transparency and objectivity of the DB scoring system are desirable features for an EITI rating scheme. So is the carefully designed questionnaire, covering several topics with quantitative indicators. Moreover, the repetitive process allows for measuring improvements in rank over time and across economies. A drawback of the system is the use of numerous local experts to fill out the questionnaires as well as the many rounds of interaction with the DB team, which complicates the administrative process.

[10] Introducing a peer review during the first stage of the process and at the national level has a few disadvantages. First, there are risks that the assessment process becomes politicized or tied to the credibility of individual reviewers. Moreover, there are risks of capacity constraints, language barriers, and significant costs.

A proposal for an EITI rating scheme

19. The most important rationale for developing a rating scheme for the EITI standard is to create a system that more clearly recognizes countries that extend EITI implementation beyond the EITI Criteria and that can better assess progress over time in implementing the EITI Principles. Therefore, the objective is to develop a set of indicators that can measure whether a country's natural resource wealth is being managed properly in an accountable and transparent manner and in respect of contracts and laws, and whether it contributes to sustainable development for the benefit of a county's citizens.

20. According to the SWG Discussion Paper, any new rating scheme should include three core elements[11]:

    i. Assessment of whether the EITI Requirements are met or not, with a clear indication of whether the country has achieved Compliance;

    ii. Scoring of EITI performance, with points awarded for achievements that exceed the minimum requirements; and

    iii. Scoring on wider governance reform.

21. It is proposed here that an annual or biennial[12] rating system be constructed that includes the three core elements above, combining a minimum standard with scoring of EITI performance. In such a system, a minimum rating would be required for indicators relating to the specific EITI Requirements, while additional scores can be added to improve the total score, including on indicators relating to wider governance reforms captured under the EITI Principles and the Extractive Industries Value Chain.[13]

22. One important argument for introducing a rating scheme is to incentivize implementing countries to constantly improve their performance and encourage them to extend monitoring of wider governance reforms related to their extractive industries. As the current validation process only encourages "just in time, just sufficient" performance, introducing a rating scheme could serve the purpose of improving both the scope and depth of EITI implementation. However, while encouraging countries to go beyond core EITI Requirements, the rating scheme should aim specifically at scoring the quality of transparency, accountability, and stakeholder collaboration and rely on the public use of the information to mobilize support for future policy changes.

23. In constructing such a scheme, it should be recognized that some of the EITI Requirements are not necessarily suitable to being rated beyond a pass or fail assessment, an annual rating of several indicators may not provide any additional value to the assessment of EITI

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11 EITI International Secretariat (2011) Board Paper 18-10, Strategy Working Group: Discussion Paper. Oslo. October 2011.

12 Meaningful progress for some indicators may be more easily measured over a two-year interval.

13 This proposal is similar to many school exam systems, which require a passing grade in specific subjects while still calculating an overall grade point average.

implementation, and some indicators may be less suitable to an objective scoring. E.g., EITI Requirement 15, where the government must make a comprehensive declaration of revenues received in accordance with the agreed reporting templates may be difficult to rate beyond pass or fail; EITI Requirement 1, where the government must issue an unequivocal public statement of its intention to implement the EITI will only have to be met once and; it may be difficult to make an objective assessment and rate EITI Requirement 2, regarding how well the government has committed to work with civil society and companies on implementing the EITI. Hence, there will be a need to think creatively about how such Requirements can be efficiently captured in the rating scheme.

24. In addition to the established EITI Requirements, the rating scheme could include indicators that capture performance along the Extractive Industries Value Chain to the extent these elements are aligned with the broader EITI Principles and measure performance with regards to transparency, accountability, and stakeholder collaboration. These may cover licensing, contracting, production transparency, profit transparency, coverage of other sectors, beneficial shareholder transparency, regulation, citizen participation, public oversight, revenue collection, revenue management, linking revenue spending to development planning, budget openness and public financial management, social and environmental issues, local content, etc. It would also open the possibility of rewarding higher quality EITI processes and reports and mainstreaming the EITI into overarching national processes and related initiatives.

25. To the extent possible, the selected indicators should be high-level standardized indicators, which could draw on the International Monetary Fund's (IMF) Guide on Resource Revenue Transparency, the Code of Good Practice on Fiscal Transparency, and similar international standards. The indicators should be designed to measure progress against broader EITI implementation and preferably be verifiable through publicly available information and to the extent possible be rated on an objective basis.

26. As proposed by the evaluation team, selecting external indicators that can be aggregated into the EITI rating scheme "opens up the EITI certification scheme to external linkages, both showing how EITI contributes to and perhaps can be seen as part of other systems, but also helps EITI define the boundaries for its own activities and thus helps it clarify where it does not need to engage".[14] Moreover, and in line with the World Bank proposal, EITI implementing countries should "develop and implement a strategy of concretely linking and mainstreaming EITI into overarching national processes and related initiatives"[15]. Such complementary governance initiatives that promote transparency and accountability could e.g. be the Kimberly Process, PEFA, OBI, Global Reporting Initiative, Natural Resource Charter, DB, etc.

[14] Scanteam (2011) p. 51.
[15] http://eiti.org/blog/eiti-working-have-your-say-eiti-evaluation

Scoring method

27. The scoring system proposed for EITI in this documents aims for simplicity and draws on the pros and cons of the six rating schemes that have been reviewed. The scope of the rating scheme does not necessarily have to be guided by the Extractive Industries Value Chain, as other dimensions may be also be considered important and relevant for implementing the broader EITI Principles. E.g., the Value Chain does not cover high quality EITI communications, extending the EITI scope to new sectors, replacing reconciliations by audits, conducting physical and/or payments due audits/reconciliations, etc.

28. Based on the PEFA structure, around 30 indicators—including the existing EITI Requirements[16]—could e.g. be developed under four separate categories. The four categories could capture the EITI reporting process, effective MSG governance, effective EITI communication, and expanding the EITI scope. Depending on its relative importance, each category would not necessarily have an equal number of indicators. As under the PEFA scheme, each indicator could be equipped with a catalogue of stylized practices ranging from neglect or poor practice to model behavior for that particular dimension and be rated ranging from 1 to 5, with 5 being the highest score, indicating the degree of fulfillment of "good practice" or international standards. In order to justify a particular score for a dimension of an indicator, all the requirements specified for that score should be fulfilled.

29. As noted above, not all of the EITI Requirements are suitable for a nuanced rating. For indicators that do not lend themselves to a scoring beyond a Yes or No, the passing grade would be equal to highest score. Under such a system, all indicator ratings could potentially be aggregated under the four separate categories as well as over the entire rating scheme, summing up to a maximum score of about 150. Such a system would allow for simple comparisons over time as well as between countries.

30. To avoid unnecessary complexity, the suggested EITI rating scheme would not give explicit primacy to the core EITI Requirements through more substantive weights. Instead, it is proposed that a minimum rating of e.g. 3 would be required for all of the individual EITI Requirements in order to become Compliant. By introducing a minimum rating for these specific indicators, primacy will implicitly remain on the core EITI Requirements. The advantage of this proposal over the current validation model is that it would recognize countries that are very close to compliance, but may be struggling with a few EITI Requirements. Moreover, the rating scheme would create incentives for countries—including those that are not yet Compliant—to move beyond the EITI Requirements and closer to the broader EITI Principles thereby deepening the EITI process.

31. Another option is to rank countries amongst each other for each indicator, as is done for the DB and CPI. However, one of the main drawbacks of this alternative is that if countries are ranked instead of rated, the scale becomes relative, which may be an issue if the number of

[16] To keep the number of indicators manageable, a number of the EITI Requirements could be combined into one indicator, e.g. 12 & 13 and 14 & 15.

EITI implementing countries varies over time and the purpose is to measure absolute progress of an individual country.[17] Moreover, only a party that has access to information about all of the participating countries can be responsible for the ranking, making the process more complicated. This may affect the design of the assessment process and put the option of including a self-assessment (as suggested below) in question.

32. Alternatively, and to further evade the complex issue of weighting indicators, one could use letters instead of numbers for the rating scheme, as is the case for the PEFA assessment. One of the main the advantages of using a letter grading is that there is no implicit weighting between indicators and the distance between the rating levels therefore becomes irrelevant. The disadvantage, however, is that it becomes impossible to aggregate scores across indicators and thereby to compare performance across countries on an aggregate level.[18]

33. Finally, to avoid moving the goalposts, participation in the EITI rating scheme could be voluntary above and beyond a rating of the EITI Requirements incorporated in the scheme. As proposed by the EITI evaluation team, each country could then decide how many dimensions it would like to be rated on, and "if a country does not wish to be rated on [a certain indicator], it will score a "0" for the world to see"[19].

Rating process

34. It is suggested that the rating scheme for the EITI standard be conducted on an annual or biennial basis. While an annual report could draw on the annual EITI progress reports, the advantage of conducting a biennial rating is that presentation of the results could coincide with the EITI Global Conference and become a flagship report for this event.

35. It is proposed that the rating scheme of the EITI standard follows the example of several of the reviewed schemes and includes an element of self-assessment. Optimally, the national MSG could respond to a pre-designed questionnaire, which includes indicators that can be rated and for which information is publicly available. To assure objectivity, the MSG would be required to provide evidence for the responses, such as citations from the country's laws and regulations, or interviews with government officials, legislators, or

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[17] The major benefit of a numerical ranking (or rating) is that it is an economical method of presenting information. The related drawback is that it often presents it in a misleading way; there is a serious problem with rank ordering (or rating) in the arbitrariness of weighting different quality measures to come up with a composite ranking. The problem remains valid even if indicators are given equal weights, as this implicitly assumes that the distance between each quality measure or level of ranking is the same across the board. See further discussion by Richard Posner on the Becker-Posner blog: http://www.becker-posner-blog.com/2007/12/the-uns-human-development-index-a-critique--posner.html?cid=6a00d8341c031153ef0133efd1af9a970b

[18] In light of these options, it is proposed here that any final decision on whether to use a letter or numerical rating system is postponed until the specific set of variable has been determined and agreed, comparing the difficulties of getting the weights right within and between variables against the benefits of being able to compare a country's aggregate performance over time and against peers.

[19] Scanteam (2011) p. 51.

others experts. The contribution of the MSG implies a broad participatory approach with domestic stakeholders.

36. The questionnaire should be designed by the SWG and be formally approved by the EITI Board before distribution. As for the DB indicators and to ensure academic rigor, it is recommended that the SWG collaborates with experienced academics when developing the indicators. The questionnaire should be accompanied by a narrative report on EITI implementation, more specifically, the annual progress report on EITI activities (EITI Requirement 21 c), which is endorsed by the MSG, detailing progress in implementing the EITI, and elaborating on efforts to strengthen EITI implementation, including any actions to extend the detail and scope of EITI reporting or to increase engagement with stakeholders. Other information relevant to performance on the set of EITI indicators should also be included in the report.[20]

37. The EITI International Secretariat would subsequently collect and review the questionnaire and the accompanying report to provide quality assurance by ensuring internal consistency as well as consistency across countries and crosschecking responses against publicly available information. For transparency and quality control purposes, the documents could also be published on the EITI web site during a specific time frame and any comments by interested parties be submitted by a certain deadline. Any clarification or additional information should be requested from the MSG and the Secretariat could conduct a country review mission, if deemed necessary. To accompany the rating, the Secretariat would prepare its own narrative report (following a standard format for all EITI countries being rated), which should be based on the most recent EITI report, the annual progress report mentioned above, and any other relevant information that is available to the Secretariat. The Secretariat's report would replace the current validation report and provide an assessment of EITI performance based on the indicator-led analysis in a concise and standardized manner. The report should include information about the rated country's effort to meet the requirements for each individual indicator as well as recommendations and specific guidance for improvements to be made based on "good practice".[21]

38. The EITI Board would approve the final rating and publish the accompanying report. As for the PEFA rating scheme, if the government of the country under review is unsatisfied with the rating of a particular indicator, it is proposed here that it could submit a response to the Board, which could potentially be included as an annex to the final report. An element of peer review would be implicit once the rating is presented for the Board's approval, as the Board itself consists of members from the various stakeholder groups. Saving the peer review for last reduces the risk of the assessment process becoming politicized or tied to the credibility of individual reviewers. Moreover, capacity constraints of member countries' representatives, including language barriers, will not be an issue.

[20] The detailed guidance for preparing this report (Guidance on Requirement 21 c – Annual Report) may have to be revised, taking into consideration any new reporting requirements, including reporting by Candidate countries.

[21] Again, rating on indicators above and beyond the EITI Requirements should, however, be voluntary.

Cost and efficiency implications of a rating scheme

39. The additional cost implications of the above proposal are as follows: Initially, there will be a fixed cost of preparing the detailed questionnaire for approval by the EITI Board. With the selection of indicators that can be publicly verified and assessed by the national MSG, the costs of the self-assessment would be considerably lower than recruiting a validation firm, but still fall on the individual implementing countries.[22] There will also be a considerable cost implication for the International Secretariat as their role will be to conduct the exercise for all implementing countries on an annual or biennial basis, including ad hoc missions. A designated staff team would have to be fully assigned to this task and also be responsible for conducting any necessary training of national MSG members in using the questionnaire.

40. It is thus assumed that the Secretariat would take over the formal validation process, including its related costs.[23] It is reasonable to believe that if a core team in the International Secretariat would be in charge of the rating process, much information would then be gathered on an annual basis and a stock of knowledge be built up, thereby reducing the amount of preparatory work for and related costs of each validation. Moreover, this process will help ensure a common understanding of the EITI Rules and the manner in which they should be implemented, thereby reducing the number of instances of misunderstanding or misinterpretation by external validators as well as implementing countries. A more consistent approach to preparing validation reports will also help improve the quality of data and the structure of the final reports, facilitating the final review by the EITI Board. Finally, it will establish a more structured approach to MSG engagement during the validation process, including outreach to stakeholders beyond the MSG.

41. As an alternative to the proposal outlined in this document, the validation process could be left in tact as a minimum requirement to be conducted at least every five years, but be supplemented by an annual or biennial rating of Compliant counties on a selection of key indicators in line with the broader EITI Principles. The main advantage of this proposition is that the goalposts would literally be identical to the current ones and regular validation would remain a minimum requirement for implementing EITI. At the same time, a country could "score extra points" for performing particularly well on some of selected EITI Requirements, but also for undertaking additional work to improve transparency, accountability, and stakeholder collaboration. Under such a system, the issue of the relative weights for the EITI Requirements compared to other new indicators would thus not be important. The drawback of this alternative, however, is that even if the International Secretariat were to undertake the validation and many of the key weaknesses of the current validation model would be addressed, some of them would remain, including no

[22] The average cost of validation is currently US$75,000, an amount that poses considerable strain on the EITI budgets of many implementing countries.

[23] Paying for validation has been considered a demonstration of political commitment. However, this commitment could instead be demonstrated through self-financing EITI rating, reporting, and communications.

recognition of progress made by countries that are not yet Compliant as well as keeping in tact a process that only encourages “just in time, just sufficient” performance of the 21 EITI Requirements. Moreover, instead of streamlining the process, the EITI would be left with a complex structure of parallel systems for assessing EITI implementation.

Indicator selection criteria

42. It is not within the scope of this assignment to develop a set of specific indicators for the EITI rating scheme. As proposed above, the new rating scheme could broadly cover four categories of EITI implementation, and separate indicators could be developed under each category. While developing the indicators and the five benchmarks for each of them—under the working assumption to forego a letter grading—it is important to select indicators that are considered to be of relatively equal importance to meeting the EITI Principles and that the distance between each benchmark is about the same for every indicator.

43. When indicators are selected, particular focus should be put on rewarding improved EITI reporting, e.g. by reporting on payment due, further disaggregating data, covering in-kind payments, explaining and following-up of discrepancies, and including and comparing data with other sources. Therefore, indicators that measure transparency of contracts and licenses and their reward processes, regulation and monitoring tools, tax compliance, and the (first-round) distribution of resource revenue could be developed. Moreover, by specifically rewarding effective communication in the rating system (e.g. customizing reports to different audiences), EITI reports may increasingly contribute to the public debate and accountability. Other indicators could also capture inclusion of additional sectors where economic governance is an issue (e.g. forestry, agriculture, energy, or fisheries), improved MSG governance and structures, efficient implementation of EITI specific legislation, and reporting on allocation of earmarked funding from extractive revenue sources etc.[24] However, as mentioned earlier, it is important to maintain to focus on transparency and accountability as well as stakeholder collaboration in the selection of indicators to be rated.

44. Presented in Text Box 1 below is a list of basic issues that define a robust and sustainable Extractive Industries Value Chain, developed by the World Bank. Building on “good practice”, several of these issues could be taken into consideration when establishing an EITI rating scheme. In addition, IMF’s Guide on Resource Revenue Transparency, which covers four pillars of fiscal transparency and, drawing on international standards and codes, lists a series of resource-specific good practices in each area, should also be considered. The pillars relate to clarity of roles and responsibilities, open budget processes, public availability of information, and assurances of integrity. (Annex 2 lists a detailed summary of the recommended practices.)

[24] The 2011 report by the Liberia Extractive Industries Transparency Initiative, “Incentivizing EITI Compliant Countries: The Case of Liberia”, highlights several of these aspects.

Conclusion

45. The purpose of this assignment has been to develop a proposal for a rating scheme for the EITI standard. The rating scheme should maintain the core EITI Requirements as the minimum EITI standard, but be designed to reward high quality EITI processes and reports as well as complementary actions agreed by implementing countries to realize the broader EITI Principles.

46. The design of the proposed rating scheme is based on the pros and cons of several of the rating schemes reviewed and clearly distinguishes the roles between the various actors involved:

    i. the MSG should fill out a self-assessment and ensure, through its constitution, a broad participatory approach with stakeholders in-country;

    ii. the International Secretariat should perform the role of an independent international expert team and thereby provide quality assurance and guarantee assessment consistency; and

    iii. the EITI Board should approve the entire rating process and implicitly provide the final sign-off by peers.

47. The design of the EITI rating scheme should be as simple as possible. This proposal suggests that a total of around 30 development-oriented indicators are carefully developed under four separate categories, incorporating the core EITI Requirements. Each indicator should be equipped with a catalogue of stylized practices ranging from poor practice to model behavior and be rated objectively on a scale from 1 to 5. Under such a system, all indicator ratings could be aggregated, summing up to a maximum score of about 150 for the entire scheme. To reduce the problem of weighting, the aim should be to select variables that are considered to be of equal importance to meeting the broader EITI Principles. Moreover, one should aim at keeping the distance between each level of rating similar across the board. Furthermore, it is proposed that, in order to maintain primacy on the EITI Requirements and maintain a minimum standard, a score of no less than 3 for each of the EITI Requirement indicators should be expected for a country to become Compliant.

48. The SWG should be charged with designing a self-assessment questionnaire that must be formally approved by the EITI Board. During the rating process, each MSG should fill out the self-assessment, prepare an EITI progress report, and submit these to the EITI International Secretariat. The Secretariat will be responsible for reviewing the questionnaires, ensuring quality and consistency, and for preparing a narrative report following a standard format for all implementing countries. The EITI Board will approve the final rating and publish the report, either annually or biennially as a flagship report at the EITI Global Conference.

Text Box 1. Governance and Transparency in the EI Value Chain: A List of Basic Issues to be Considered

1. Award of contracts and licenses

- Is there a clear and appropriate legal, fiscal, contractual, and institutional framework in place?
- Are bidding procedures for awarding licensing rights and contracts transparent and competitive?
- How are public and/or private companies qualified?
- What are the fiscal terms of the contracts?
- Are community interests taken into account and has there been informed consultation with the most vulnerable groups including women and youth representatives?

2. Regulation and monitoring of operations

- Do technical, accounting, and environmental regulations meet international standards?
- Do the government agencies have sufficient capacity to enforce these regulations?
- Are audit procedures in line with international standards?

3. Collection of taxes and royalties

- Do the relevant institutions have adequate administrative and audit capacity?
- Are all government revenues from the extractive industries sector deposited into a treasury account?
- Are accounting rules and reporting standards and procedures clear?
- Is government extractive industries revenue published?

4. Revenue management and allocation

- Are the decisions on revenue allocation transparent?
- Are expenditure decisions nested within a sound macro-fiscal framework and in line with a country's development strategy?
- Are there policy measures to address the Dutch disease?
- Is there a credible mechanism to deal with excess revenue in a sustainable manner, such as that for setting it aside in a transparent savings and stabilization fund?
- Is the allocation of extractive industries revenue to sub-national governments consistent with fiscal decentralization principles outlined in the legal framework and transparent, simple, rule-based, and equitable?

5. Implementation of sustainable development policies and projects

- Do public investment decisions adequately capture the potential benefits of extractive industries projects?
- Is there a competitive-based procurement system?
- Is special attention paid to the sustainable development and the environmental protection of producing regions?
- Is an effective monitoring system in place to provide feedback on project design and investment policies?

Source: World Bank (2009) Extractive Industries Value Chain. Extractive Industries for Development Series 23, Africa Region Working Paper 24, Annex 1.

49. There is broad-based support among the EITI stakeholders for encouraging implementing countries to go beyond compliance by undertaking additional work to improve transparency, accountability, and stakeholder collaboration. Hence, when designing the individual indicators, it is recommended that particular focus is put on rewarding improved EITI reporting, e.g. by reporting on payments due, further disaggregating data, and covering in-kind payments. In addition, there is a need to reward good communication practices so that EITI reports can be customized to different audiences and usefully contribute to the public debate, encourage incorporation of other sectors where economic governance may be an issue, and promote implementation of existing EITI legislation as intended. Some of the basic issues that define a robust and sustainable Extractive Industries Value Chain should also be taken into consideration and indicators should draw on the IMF's Guide on Resource Revenue Transparency, which lists a series of resource-specific good practices.

Annex 1. Strengths and weaknesses of similar rating schemes

a. Public Expenditure and Financial Accountability (PEFA) Framework[25]

50. The PEFA Program was founded in December 2001 as a multi-donor partnership between the World Bank, the European Commission, and the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, and the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary Fund. A Steering Committee comprising these agencies manages the program, while the PEFA Secretariat implements the activities.

51. The PEFA assessment is a tool that provides reliable information on the performance of country public financial management (PFM) systems, processes, and institutions over time. The information provided by the framework also contributes to government reform processes by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success.

52. The PEFA PFM Performance Measurement Framework incorporates a PFM performance report as well as a set of high-level standardized indicators, which draw on the HIPC expenditure tracking benchmarks, the IMF Fiscal Transparency Code, and other international standards. The objective of this approach is to mainstream the better practices that are applied in some countries.

53. The report is a statement of current PFM performance and does not include recommendations for reforms or action plans. In case of different views between the development partners and the government over the findings of the report, the government's opinion can be reflected in an annex of the report.

54. The core PEFA requirements are articulated in 28 high-level indicators across six groups of PFM activities. Each of these indicators are sub-divided into two to four lower-level dimensions, and each of these are equipped with a catalogue of stylized practices ranging from neglect or poor practice to model behavior for that particular dimension.

55. The scoring system is based on letter grades ranging from A to D.[26] The 'D' score is considered the residual score, to be applied if the requirements for any higher score are not met. In order to justify a particular score for a dimension of an indicator, all the requirements specified for that score in the scoring table must be fulfilled. A country's actual PFM practices can thus be scored in detail and objectively against a catalogue of dimensions and indicators. More than 120 PEFA assessments (both national and sub-national) have so far been conducted across all types of countries, including numerous

[25] Information about the PEFA Framework has been gathered from the official web site of the PEFA Secretariat, www.pefa.org/.

[26] Each dimension of the indicators must be assessed separately. The overall score for an indicator is then based on the assessments for the individual dimensions of the indicator. http://siteresources.worldbank.org/PEFA/Resources/PMFEng-finalSZ.pdf

repeat assessments, providing a large body of experience with a nuanced scoring system.

56. An external team of international PFM experts, assembled by the leading agency, normally conducts the PEFA assessment. Domestic PFM experts on behalf of the government sometimes also participate in joint PEFA assessments or self-assessments. Best practices call for PEFA report reviews to follow wide-ranging processes involving the main interested development partners, the government, and—at different stages of the process—the PEFA Secretariat (the latter for the methodological approach).

57. The recommended interval between assessments is between three to four years. In developing countries, multilateral and bilateral developing partners often finance the PEFA exercise. Resources for the assessment may typically represent 2-3 person- months for a small country and 5-6 for a bigger one. A committee approves the report before final publication. The assessment's leading agency, in agreement with the government, decides if the report can be shared and with whom.

b. African Peer Review Mechanism (APRM)[27]

58. Launched in 2003 by the African Union (AU), the APRM is a mutually agreed instrument voluntarily acceded to by the member states of the AU as an African self-monitoring mechanism. The APRM is intended to foster the adoption of policies, standards, and practices that lead to political stability, high economic growth, sustainable development, and accelerated sub-regional and continental economic integration through sharing of experiences and reinforcement of successful and best practice, including identifying deficiencies and assessing the needs of capacity building.

59. However, despite its name, the APRM is primarily a country review through an international expert team led by one member of the APR Panel of Eminent Persons. The element of peer review comes in only at the very end of the review process, when the APR Forum of participating Heads of State and the government discuss the country review of a given country in front of that country's leader. The eminent person in charge of a scheduled country review is selected from within the APR Panel, and the APRM Secretariat assembles the expert team.

60. The APRM review starts out with a self-assessment by the country under review, following a detailed questionnaire in four focus areas.[28] Within each area, specific challenges and achievements are identified before compliance against measurable APRM objectives and ratification and implementation of certain standards and codes approved by African countries are assessed. A country's self-assessment needs to show evidence of a broad participatory approach with stakeholders in-country.

61. The review process is quite lengthy with several missions and vetting instances, making the

[27] Information about the APRM has been gathered from the official web site of the APRM, http://aprm-au.org/.

[28] Following a submission by the EITI International Secretariat, the recently revised APRM self-assessment questionnaire has specific questions on EITI status in both the economic and corporate governance sections.

process difficult to repeat on a regular basis.[29] To date, only X countries have undergone a so called Base Review. Moreover, the reports tend to be long and detailed. At the end of the process, the government of the country under review may submit a response to the review, which becomes an integral part of the review report. The APR rules foresee publication of the country review report within six months of the peer review by the APR Forum. The process is primarily funded by contributions from participating countries and funds from development partners.

c. *United Nations Convention Against Corruption (UNCAC) Review Group*[30]

62. The purposes of the UNCAC, adopted in 2004, are to: (a) promote and strengthen measures to prevent and combat corruption more efficiently and effectively; (b) promote, facilitate, and support international cooperation and technical assistance in the prevention of and fight against corruption, including in asset recovery; and (c) promote integrity, accountability, and proper management of public affairs and public property.

63. In 2010, the States Parties to UNCAC adopted a “Mechanism for the Review of Implementation of the Convention”. Guided by an Implementation Review Group and a Secretariat, the mechanism started with 27 states parties selected to be reviewed in year one of the first five-year round. The purpose of the process is to review implementation of selected UNCAC Articles and to assist states parties in their implementation of the Convention.

64. The UNCAC review is a peer review and two other states parties, drawn by lot and including one reviewing state from the same region, reviews each state party. Each state party appoints a focal point and up to 15 governmental experts for the purpose of the review process, which is an intergovernmental process without any ranking.

65. Each country review consists of the following steps: (i) completion of a comprehensive self-assessment checklist by the state party under review, involving broad consultation of stakeholders at the national level; (ii) desk review of the self-assessment and other relevant material by the reviewing states; (iii) if agreed by the state party under review, a country visit or joint meeting elsewhere; (iv) preparation of a country review report, agreed upon between the reviewing states parties and the state party under review. The country review reports are confidential, although executive summaries of such reports have been published. However, the Secretariat shall compile the most common and relevant information on successes, good practices, challenges, observations, and technical assistance needs contained in the country review reports and include them, organized by theme, in a thematic implementation report and regional supplementary addenda, for submission to the Implementation Review Group.

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[29] The review process for the first four APRM countries—Ghana, Kenya, Mauritius, and Rwanda—took between eighteen months (Ghana) and three years or more (Mauritius), since they were first announced in Kigali in February 2004.

[30] Information about the UNCAC Review Mechanism has been gathered from the official web site, www.uncaccoalition.org/en/uncac-review.html

66. The early experience with the review process and specific country review reports were discussed during the UNCAC Conference of States Parties in Marrakech (October 2011). An earlier decision to exclude civil society representatives (organized in an UNCAC Coalition of civil society) was reaffirmed, despite lobbying in favor of inclusion by several states parties.

d. Open Budget Index (OBI)[31]

67. The Open Budget Survey is a comprehensive analysis and survey developed by the International Budget Partnership (IBP) that evaluates whether governments give the public access to budget information and opportunities to participate in the budget process at the national level. The first Open Budget Survey was released in 2006 and is now conducted biennially, currently covering 94 countries.

68. To easily measure the overall commitment of the countries surveyed to transparency and to allow for comparisons among countries, the IBP created the Open Budget Index (OBI) from the survey. OBI assigns each country a score based on the average of the responses to the Open Budget Questionnaire, completed by a team of non-governmental researchers. This score reflects the quantity of publicly available budget information in the eight key budget documents. Most of the responses are ranked in letters ranging from a to e, where a 'd' indicates a standard is not met and an 'e' means not applicable.[32] Researchers are also asked to provide evidence for their responses, such as citations from budget documents; the country's laws; or interviews with government officials, legislators, or others expert on the budget process.

69. Once the questionnaire is completed, two anonymous peer reviewers to help ensure the validity and objectivity of the results review it. At the request of the researcher, a third set of comments provided by the government itself may also be included. As a final step, IBP staff analyze and review the questionnaires to ensure internal consistency as well as consistency across countries and to crosscheck responses against publicly available information. The entire process for producing the OBI is normally between four to ten months.

e. Corruption Perception Index (CPI)[33]

70. Transparency International established the CPI in 1995. The index ranks countries according to their perceived levels of public sector corruption, drawing on different assessments and business opinion surveys carried out by 13 independent and reputable institutions.

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[31] Information about the OB has been gathered from the web site, http://internationalbudget.org/what-we-do/open-budget-survey/.

[32] For the purposes of aggregating the responses, the numeric score of 100 percent is awarded for an 'a', 67 percent for a 'b, 33 percent for a 'c, and zero for a 'd'. The response of 'e' causes the question not to be counted as part of the aggregated category.

[33] Information about the CPI has been gathered from the web site, http://cpi.transparency.org/cpi2011/.

71. The CPI is an aggregated index of 17 individual sources, as a combination of sources measuring the same phenomenon is considered more reliable than each source taken separately. All sources measure the overall extent of corruption and provide an individual ranking of countries. The sources used in the CPI 2011 draw on the perceptions of both resident and non-resident experts and are a mixture of business surveys, assessments by commercial risk analysts, and country experts from international institutions.

72. To calculate the CPI, the data provided by the individual sources is translated into a common scale. A matching percentiles technique is used, which uses the ranks of countries as reported by individual sources. While there is some information loss in this technique, it allows all reported scores to remain within the bounds of the CPI, i.e. between 0 and 10.[34] There must be at least three separate data sources available for a country to be scored and ranked.

f. Doing Business (DB)[35]

73. Doing Business 2012 is the ninth in a series of annual reports prepared by the World Bank investigating the regulations that enhance business activity and those that constrain it. Doing Business presents quantitative indicators on business regulation and the protection of property rights that can be compared across 183 economies and over time.

74. The Doing Business data are collected in a standardized way. To start, the Doing Business team, with academic advisers, designs a questionnaire.[36] Questionnaires are administered through more than 9,000 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials, and other professionals. These experts have several rounds of interaction with the Doing Business team, involving conference calls, written correspondence, and visits by the team. The data from the questionnaires are subjected to numerous rounds of verification, leading to revisions or expansions of the information collected.

75. Doing Business respondents both fill out written questionnaires and provide references to the relevant laws, regulations, and fee schedules, aiding data checking and quality assurance. The Doing Business methodology is to use factual information about what laws and regulations say and allow for multiple interactions with local respondents to clarify potential misinterpretations of questions. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. Finally, the data highlight the extent of specific regulatory obstacles to business as well as point to what might be reformed.

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[34] The second step consists of performing a beta-transformation on the standardized scores. This increases the standard deviation among all countries included in the CPI and makes it possible to differentiate between countries. Finally, the CPI scores are determined by averaging all of the standardized values for each country.

[35] Information about DBI has been gathered from the web site, http://www.doingbusiness.org/.

[36] Eight of the background papers underlying the indicators have been published in leading economic journals.

76. The ease of doing business index ranks economies from 1 to 183. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the 10 topics included in the index in Doing Business 2012. Thus, Doing Business uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components. If an economy has no laws or regulations covering a specific area, if regulation exists but is never used in practice, or if a competing regulation prohibits such practice, it receives a “no practice” or “not possible” mark, putting the economy at the bottom of the ranking on the relevant indicator.

Annex 2. Summary of good fiscal transparency practices for resource revenue management[37]

I. Clarity of Roles and Responsibilities

A. Legal Framework for Resource Revenues. The government's ownership of resources in the ground should be clearly established in law and the power to grant rights to explore, produce, and sell these resources should be well established in laws, regulations, and procedures that cover all stages of resource development.

B. Fiscal Regime. The government's policy framework and legal basis for taxation or production sharing agreements with resource companies should be presented to the public clearly and comprehensively.

C. Authority over Revenue Flows and Borrowing. Fiscal authority over resource-related revenue and borrowing is clearly specified in the law. Legislation should require full disclosure of all resource-related revenue, loan receipts and liabilities, and asset holdings.

D. Equity Participation. Government involvement in the resource sector through equity participation should be fully disclosed and the implications explained to the public.

E. National Resource Companies. Ownership structures of national resource companies and their fiscal role vis-à-vis the resource sector ministry and the finance ministry should be clearly defined. Commercial responsibilities should be clearly distinguished from policy, regulatory, and social obligations.

F. Quasi-fiscal Activities of Resource Companies. Arrangements whereby international or national resource companies undertake social or environmental expenditure or provide subsidies to producers or consumers without explicit budget support should be clearly defined and described in the budget documentation.

G. Subnational Government and Resource Revenues. Arrangements to assign or share resource revenues between central and subnational levels of government should be well defined and explicitly reflect national fiscal policy and macroeconomic objectives.

II. Open Budget Processes

A. Fiscal Policy and Resource Revenues. The budget framework should incorporate a clear policy statement on the rate of exploitation of natural resources and the management of resource revenues, referring to the government's overall fiscal and economic objectives, including long-term fiscal sustainability.

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[37] IMF (2007) Guide on Resource Revenue Transparency, Washington D.C. http://www.imf.org/external/np/pp/2007/eng/051507g.pdf

B. Fiscal Policy, Resource-related Funds and the Budget. Mechanisms for coordinating the operations of any funds established for resource revenue management with other fiscal activities should be clearly specified.

C. Operations of Resource-related Funds. Operational rules applied to resource-related funds should be clearly stated as part of an overall fiscal policy framework.

D. Fiscal Policy and Asset Management. The investment policies for assets accumulated through resource revenue savings should be clearly stated, including through a statement in the annual budget documents.

E. Accounting for Resource Revenues. The government accounting system or special fund arrangements should clearly identify all government resource revenue receipts and enable issuance of timely, comprehensive, and regular reports to the public, ideally as part of a comprehensive budget execution report. The reports should be based on a clear statement of the accounting basis (cash or accrual) and policies.

III. Public Availability of Information

A. Budget Documentation of Resource Revenues and Spending. All resource revenue-related transactions, including through resource funds, should be clearly identified, described, and reported in the budget process and final accounts documents.

B. Reporting on Company Resource Revenue Payments. Reports on government receipts of company resource revenue payments should be made publicly available as part of the government budget and accounting process.

C. Fiscal Balance. The (primary) non-resource fiscal balance should be presented in budget documents as an indicator of the macroeconomic impact and sustainability of fiscal policy, in addition to the overall balance and other relevant fiscal indicators.

D. Reporting on Resource-related Debt. The government's published debt reports should identify any direct or indirect collateralization of future resource production, for instance through pre-commitment of production to lenders. All government contractual risks and obligations arising from such debt should be disclosed.

E. Reporting on Assets. All financial assets held by government domestically or abroad, including those arising from resource-related activities, should be fully disclosed in government financial statements.

F. Estimating Resource Asset Worth. Estimates of resource asset worth based on probable production streams and assumptions should be disclosed.

G. Reporting Contingent Liabilities and Quasi-fiscal Activities. Government contingent liabilities and the cost of resource company quasi-fiscal activities arising from resource-related contracts should be reported in budget accounts or other relevant documents in a form that helps assess fiscal risks and the full extent of fiscal activity.

H. Fiscal Risks. Risks associated with resource revenue, particularly price risks and contingent liabilities, should be explicitly considered in annual budget documents, and measures taken to address them should be explained and their performance monitored.

IV. Assurances of Integrity

A. Internal Control and Audit of Resource Revenues. Internal control and audit procedures for handling resource revenue receipts through government accounts or special fund arrangements and any spending of such receipts through special funds should be clearly described and disclosed to the public.

B. Tax Administration Openness. Tax administration should be conducted in a way to ensure that resource companies understand their obligations, entitlements, and rights. The scope for discretionary action by tax officials should be clearly defined in law and regulations, and the adequacy of sector skills and standard or sector-specific procedures should be open to review.

C. Oversight of Companies. International and national resource companies should comply fully with internationally accepted standards for accounting, auditing, and publication of accounts.

D. Oversight of Company/Government Revenue Flows. A national audit office or other independent organization should report regularly to parliament on the revenue flows between international and national companies and the government and on any discrepancies between different sets of data on these flows.