

Board Paper 32-7-A

2015 EITI Annual Accounts and Q1 2016 forecast

For decision

Summary:

The EITI Finance Committee recommends that the Board approves the 2015 accounts of the EITI International Management which are in line with the 2015 audited figures.

The EITI received USD 0.7m less than it spent in 2015. Although spending was stable and 13% lower than planned, the organisation received USD 1.4m less in 2015 than it originally budgeted for and USD 0.6m less than in 2014.

2015 was a difficult financial year for the EITI. Whilst some expenditure savings can and will be made in 2016, it is clear that the shortfall underlines the broad view that the current funding arrangements and formula are not sustainable. It is critical that the incoming Board concludes the future funding arrangements in order to ensure that the EITI has sound funding arrangements for the future. The Board will have to make tough decisions that will severely affect the core activities of the EITI if the revenue shortfall continues.

EITI ANNUAL ACCOUNTS 2015

Contents

1	2015 EITI Annual Accounts.....	2
2	2015 Revenue	3
2.1	2015 Project-specific funding	7
3	2015 Expenditure.....	8
4	Balance Sheet and cashflow statement as per 31 December.....	10
5	Conclusion.....	12
6	Forward Look: Foreseen activities for Q1 2016	13

1 2015 EITI Annual Accounts

The EITI annual accounts for 2015 were received from the EITI's auditors, HCA Revisjon & Rådgivning AS, on 25 January 2015. This paper presents the Board with a set of accounts for the period 1 January to 31 December 2015 and is submitted to the Board alongside the audited accounts submitted through the Audit Committee.

The EITI received USD 0.7 m less than it spent in 2015. Its **revenue** in 2015 was USD 4.4 m and its expenditure was USD 5.1m. This was against an approved **budget** of USD 5.8m. The expenditure of USD 5.1m relates to higher than foreseen expenditure on board meetings with related translation costs and training; and significantly lower expenditure on implementation, communication and validations. It includes USD 0.6m project-specific expenditure. The lower than budgeted revenue arose from a reduced funding base and a significant shortfall in expected contributions from both supporting countries and companies. The shortfall confirmed risks communicated earlier in the year.

As at 1 January 2015, the bank account balance was USD 1.3m and as at 31 December 2015 the balance was USD 1.2m. These figures include the reserve, The bank balance remains stable despite the 2015 funding shortfall because of funding received early for 2016, including for the Global Conference. The bank account is held in Norwegian kroner and the deterioration of this balance is partly due to the falling value of the kroner against the US dollar. The reserve fund of USD 0.3m, agreed by the Board in 2010¹ to cater for fluctuations in the exchange rate and uncertainties in some major funding streams, remains untouched. The Finance Committee's proposal to the Board to increase the reserve to the NOK equivalent of USD 0.6m from USD 0.5m (NOK 4.8m) was approved at the Board meeting in Berne and will come into effect in March.

¹ When established in 2010, the reserve of US \$500,000 equalled Norwegian Kroner (NOK2.7m). Due to interest accrued, the reserve now stands at NOK 2.9m which, with the closing exchange rate used for the 2015 figures, translates to USD 339,000 (USD 396,000 in 2014).

The financial status of the EITI International Secretariat for 2014 is briefly summarised in table 1 below.

Table 1: Summary figures January-December 2015

EITI Reporting 2015

All figures in **USD thousands**

Main figures	Actual 2015	Budget 2015	Actual 2014
<i>average rate NOK/USD</i>	8,07	6,30	6,30
Revenue	4 406	5 820	5 031
Expenditure	5 088	5 820	5 026
Net financial revenue	14	-	10
<u>Net result</u>	- 669	-	14
<i>closing rate NOK/USD</i>	8,81	7,43	7,43
Equity* 01.01.	1 066	1 287	1 287
Equity end of period. (incl. currency translation)	287	1 066	1 066
<i>Bank balance at end of period (including reserve)</i>	<i>1 183</i>	<i>1 318</i>	<i>1 318</i>
<i>Reserve at end of period</i>	<i>338</i>	<i>397</i>	<i>397</i>

*Equity is the net of assets and liabilities and represents the amount that is carried over to the next period.

2 2015 Revenue

The EITI received USD 4.4m in 2015 compared to USD 5.2m in 2014. This was significantly lower than planned. There was significant shortfall from both supporting countries and supporting companies within oil, gas and mining sectors.

As the Secretariat was unsuccessful in further broadening its funding base - excluding project-specific funding - revenue was far below the approved budget of USD 5.2m. As agreed by the Board, the International Secretariat sent out its funding requests in line with the financing formula agreed at the Berlin Board meeting in April 2007. The revenue shortfall suggests that the the current arrangements and funding formula are no longer sustainable. As a result, the Board agreed to establish a working group on Funding. The working group questions the current practice with governance representation without taxation. The working group suggests that the Board, in conducting its funding review, puts particular emphasis on **whether implementing countries should pay a membership fee, whether supporting countries should be required to provide support at a minimum level, and whether supporting companies should have to pay a membership fee.** A main aim must be to ensure that the EITI has funding arrangements that ensure reliable income.

Table 2 and Table 3 breaks down the contributions by type of stakeholder

Table 2: Revenue 2010 – 2014 broken down by constituency

EITI Reporting - Revenue 2010-2014

All figures in **USD thousands**

Revenue	2010	2011	2012	2013	2014
	Actual	Actual	Actual	Actual	Actual
<u>Core contribution, Government of Norway</u>					
Government of Norway	603	669	583	0	397
<u>Supporting countries, International Development Agencies (IDAs) and NGOs (approximately 50% of remaining requirement)</u>					
Civil Society					
Supporting countries and IDA's	1 328	2 317	2 436	3 656	2 459
<u>Private sector (approximately 50% of remaining requirement)</u>					
Investors					
Oil and Gas	4	14	13	10	11
Mining and Minerals	749	1 003	1 254	1 205	1 565
Non-extractives	130	816	635	904	731
	0	0	0	10	16
Total Revenues	2 814	4 821	4 921	5 784	5 178

Table 3: Revenue 2015 broken down by constituency

EITI Reporting - Revenue 2015

All figures in **USD thousands**

Result Report	Year 2015			
	Actual	Budget	Variance	in%
Core contribution, Government of Norway				
Government of Norway	310	394	(84)	-21 %
Supporting countries, International Development and NGOs (approximately 50% of remaining revenue)				
Civil Society	0	10	(10)	-100 %
Supporting countries and IDA's *	1 754	2 404	(650)	-27 %
Private sector (approximately 50% of remaining revenue)				
Investors	9	10	(1)	-12 %
Oil and Gas	1 110	1 598	(488)	-31 %
Mining and Minerals	575	800	(225)	-28 %
Non-extractives	10	5	5	92 %
Total Core Revenues	3 767	5 220	(1 453)	-28 %
Project-specific funding				
Training, assessments **	584	0	584	-
Validation				
Validation	55	600	(545)	-91 %
Financial Income				
Net interest income	5	-	5	-
Total Revenues	4 411	5 820	(1 409)	-24 %

*The significant apparent shortfall in funding from the supporting countries is expected to be partially met by money for 2015 expected to be received in 2016 from the European Commission and the United States.

** Project-specific funding has been included in the 2016 budget. It was not included in the 2015 budget although a funding request for training was sent to the World Bank before the beginning of the year.

Table 4 below sets out the revenue of the EITI International Secretariat in the period January–December 2015. In total, 50 organisations contributed to the EITI International Management in 2015 compared to 66 in 2014. The first column of table 3 shows the amount received and the currency it was received in. The second column shows the actual amount received in NOK. The third column shows the amount received based on the average exchange rate for 2015 (1US \$=8.1 NOK)² for the purpose of presenting the figures in USD.

² Average Rate for 2015: 1USD=8,07 NOK

Source Central Bank of Norway = http://www.norges-bank.no/en/Statistics/exchange_rates/currency/USD/

Table 4: 2015 Revenue

EITI REVENUE JAN-DEC 2015			
Name	Amount in Currency	Amount received in NOK	Amount received in USD
Governments, Civil Society & International Dev. Agencies			
DFAT – Australia	AUD 350 000	2 122 193	262 973
Government of Canada	CAD 45 000	285 436	35 370
Government of Denmark	DKK 2 000 000	2 318 300	287 274
MFA – France	EUR 50 000	454 545	56 325
MFA – Germany	EUR 190 000	1 762 895	218 450
MFA – Norway	NOK 2 500 000	2 500 000	309 789
MFA – Sweden	SEK 2 500 000	2 457 144	304 479
Government of Switzerland (SECO)	CHF 200 000	1 729 600	214 325
Government of Switzerland (Berne Board Meeting)	CHF 63 391	554 130	68 665
DFID - UK	GBP 200 000	2 368 800	293 532
DFID - UK (Beneficial ownership workshop)	GBP 25 000	296 323	36 719
DFID - UK (Impact assessment studies)	GBP 25 000	317 495	39 343
DFID - UK	GBP 50 000	655 655	81 246
UK Foreign & Commonwealth Office (Chile Secondment)	USD 3,794	29 399	3 643
World Bank (Training Dakar 2014)	USD 50 000	386 075	47 841
World Bank (Training Kinshasa, Manila)	USD 146 500	1 151 021	142 630
World Bank (Training Lima, Accra)	USD 82 500	701 390	86 913
World Bank (Training Berne, Istanbul)	USD 77 000	678 293	84 051
World Bank (Pilot Validations)	USD 50 000	440 500	54 585
World Bank (Data Portal)	USD 68 274	601 494	74 535
Total revenue from Govt's, CSO and Int. Dev. Agencies		21 810 689	2 702 688
Institutional Investors			
ERAFP - French Public Pensions	EUR 3 796	33 200	4 114
Opseu Pension Trust	USD 2 500	19 314	2 393
Canada Pension Plan Inv. Board	USD 2 500	18 235	2 260
Total revenue from Institutional Investors		70 749	8 767
Companies			
Oil & Gas			
BG International Ltd.	USD 60 000	485 630	60 177
BP International Ltd.	USD 60 000	463 431	57 426
Chevron Corp.	USD 60 000	493 403	61 140
Eni Spa	USD 60 000	482 593	59 801
Exxon Mobil Corp.	USD 60 000	490 097	60 731
Galp Energia Group	USD 10 000	82 559	10 230
Hess Corporation (received in 2014)	USD 60 000	421 445	52 224
Inpex Corporation	USD 60 000	519 150	64 331
KOGAS	USD 10 000	80 589	9 986
Kosmos Energy Ltd.	USD 20 000	162 968	20 194
Lundin Petroleum AB	USD 35 000	265 059	32 845
Marathon Oil	USD 20 000	173 353	21 481

Mærsk Oil & Gas AS (received in 2014)	USD 60 000	440 750	54 616
MOL Hungarian Olaj ES	USD 40 000	300 988	37 297
Noble Energy Inc. (received in 2014)	USD 60 000	448 925	55 629
Oil Search PNG	USD 35 000	317 536	39 348
Petroleus Mexicanos	USD 60 000	518 963	64 308
RWE Aktiengesellschaft	USD 35 000	258 720	32 059
Shell International BV	USD 60 000	448 580	55 586
Sherritt Int. Finance Ltd	USD 10 000	80 219	9 940
Soma Oil Gas Exploration	USD 10 000	76 321	9 457
Statoil ASA	USD 60 000	458 210	56 779
Timor Gap EP	USD 10 000	169 788	21 039
Total SA	USD 60 000	497 288	61 622
Tullow Group	USD 40 000	324 556	40 218
Woodside Energy	USD 60 000	495 056	61 345
Total revenue from Oil & Gas		8 956 178	1 109 811

Mineral & Mining			
Adaro Energy	USD 10 000	75 875	9 402
Base Titanium Ltd	USD 12 000	93 821	11 626
Centerra Gold Inc.	USD 10 000	75 960	9 413
Dundee Precious Metals	USD 10 000	81 292	10 073
Eramet	USD 20 000	151 064	18 719
Fleurette Properties Ltd. (received in 2014)	USD 20 000	146 960	18 211
Hudbay Minerals Inc.	USD 20 000	153 161	18 979
ICMM ³	GBP 260 000	3 141 900	389 331
Newcrest Mining Ltd.	USD 32 000	258 956	32 089
Vale	USD 60 000	458 420	56 805
Total revenue from Mineral & Mining		4 637 409	574 648
Non-extractive companies			
KFW Bankengruppe	USD 10 000	77 335	9 583
Total from non-extractive companies		77 335	9 583

Total revenue full year 2015 including project-specific funding		35 552 361	4 405 497
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2.1 2015 Project-specific funding

In addition to the core funds received to support the EITI International Management, a number of parties chose to provide project-specific targeted financial support to a host of events and activities in the 2015 workplan. In 2015, project-specific funding was granted for the following projects:

- CHF 63 391 from the Government of Switzerland towards the Berne Board meeting.

³ ICMM members: African Rainbow, Anglo American, AngloGold Ashanti, Antofagasta, Areva, Barrick, BHB Billiton, Codelco, Freeport-McMoRan, Glencore, Goldcorp, Gold Fields, Hydro, JX Nippon, Lonmin, Mitsubishi, MMG, Newmont, Polyus Gold, Rio Tinto, South32, Sumitomo Metal, and Teck.

- GBP 25,000 from DFID towards Extractives Beneficial Ownership workshop.
- GBP 25,000 from DFID towards EITI impact assessment studies including Zambia.
- USD 3,794 from UK Foreign & Commonwealth Office towards Francisco Paris's secondment to Chile.
- USD 50,000 from the World Bank Multi Donor Trust fund towards the National Coordinators Workshops held in in Dakar in 2014.
- USD 146,500 from the World Bank Multi Donor Trust fund towards the National Coordinators and Communications Training Workshops held in in Kinshasa and Manila.
- USD82,500 from the World Bank Multi Donor Trust fund towards the National Coordinators and Communications Training Workshops held in in Accra and Lima.

In addition, the following was agreed for activities in that period and was expected to be received afterwards:

- USD77,000 from the World Bank Multi Donor Trust fund towards the National Coordinators and Data workshops in Berne and Istanbul .
- USD50,000 from the World Bank Multi Donor Trust fund towards the five pilot validations for Ghana, Mongolia, São Tomé, Solomon Islands and Timor-Leste
- USD 68,274 from the World Bank Multi Donor Trust fund towards the EITI Data Portal project.

The table below shows project-specific funding received in 2015.

Table 5: Project-specific funding 2015

Project-specific funding - 2015			
Name	Amount paid	Amount received in NOK	Amount received in USD
Government of Switzerland (Berne Board Meeting)	CHF 63 391	554 130	68 665
DFID - UK (Beneficial ownership workshop)	GBP 25 000	296 323	36 719
DFID - UK (Impact assessment studies)	GBP 25 000	317 495	39 343
UK Foreign & Commonwealth Office (Chile Secondment)	USD 3 794	29 399	3 643
World Bank (Training Dakar 2014)	USD 50 000	386 075	47 841
World Bank (Training Kinshasa, Manila)	USD 146 500	1 151 021	142 630
World Bank (Training Lima, Accra)	USD 82 500	701 390	86 913
World Bank (Training Berne, Istanbul)	USD 77 000	678 293	84 051
World Bank (Pilot Validations)	USD 50 000	440 500	54 585
World Bank (Data Portal)	USD 68 274	601 494	74 535
Total revenue for specific projects		5 156 120	638 924

3 2015 Expenditure

Total expenditure for 2015 was USD 5.1m or USD 0.7m below the budget. This decrease is significantly affected by the strong USD and because more than half of the costs are in NOK. **Travel and accommodation** costs were high due to the Board Meeting and the six regional trainings. **Translation and interpretation** costs were also high, especially in Q4. As before, approximately half of the total budgeted expenditure went to **salaries**. The decision to undertake validation pilots in Q4 at a lower costs than planned as well as a delayed data portal project lowered the **project consultants** line compared to budget. Furthermore, please note that in the new format, all the cost functions have an allocated share of salaries.

- **Implementation costs** at USD 1.6m were broadly made up of USD 1.2m in salary costs and USD 0.4m in travel costs.
- The costs of the **Board meetings** of USD 1.0m were broadly made up of USD 0.2m in salary costs, USD 0.4m in translation costs and USD 0.3m in travel costs. It included the cost of the Validation and Governance Committee meetings in Paris, Board Meetings in Brazzaville, Berne and Kiev. In addition to the travel costs this budget line was affected by higher than planned translation costs due to the number of papers requested.
- **Communication costs** of USD 0.5m mainly related to updates and improvements to the EITI website including the implementers portal, the Progress Report and the extractives data portal project (EDP). These were lower than expected mainly due to a delay in the EDP.
- **Training costs** of USD 0.5m were above budget as training, other than staff related costs, was not included in the 2015 budget. Training costs have been included in the budget for 2016 with USD 0.9m even if it is to be separately funded.
- **Management and admin costs** of USD 0.6m were affected by higher costs of consultants and translation costs linked to the Governance review.
- **Validation costs** of USD 0.2m reflect the delay in validations, but includes the cost for the five pilot validations agreed by the Board.

Table 6: Expenditure 2010-2014

EITI Reporting - Costs 2010-2014

All figures in **USD thousands**

Costs	2010	2011	2012	2013	2014
	Actual	Actual	Actual	Actual	Actual
Implementation	207	162	200	706	471
Outreach	105	151	169	212	214
Board meetings	458	428	496	605	559
Communications	95	226	173	461	536
Chair's support	154	86	35	35	50
Project consultants	107	305	168	186	145
Salary	1 403	1 922	1 779	2 260	2 363
Other staff expenses	93	72	173	155	252
Office expenses	179	363	562	452	381
Conference	219	958	261	1 442	54
Total Expenditure	3 020	4 672	4 017	6 512	5 025
Net result	(206)	149	904	(728)	5

Table 7: Expenditure 2015

EITI Reporting - Costs 2015

All figures in **USD thousands**

Result Report	Year 2015			
	Actual	Budget	Variance	in%
Costs by function				
Implementation	1 602	2 088	486	23 %
Outreach	263	530	267	50 %
Board meetings	959	680	(279)	-41 %
Communications	546	899	353	39 %
Chair's support	33	86	53	61 %
Training*	476	102	(373)	-365 %
Stakeholder rel./Int. advocacy	219	141	(78)	-55 %
Management & Admin	619	468	(151)	-32 %
Global conference	124	123	(1)	-1 %
Validation	239	702	464	66 %
Total Costs by function	5 079	5 820	741	13 %
Costs by type				
Salary	2 520	2 725	205	8 %
Other staff expenses	63	240	177	74 %
Office expenses	306	365	59	16 %
Travel and accomodation*	1 092	900	(192)	-21 %
Translation & Interpretation	572	600	28	5 %
Project consultants	392	900	508	56 %
Other expenses	134	90	(44)	-49 %
Total Costs by type	5 079	5 820	741	13 %
Net result	(669)	-	(669)	

* This shortfall is partly explained by USD 350,000 for training in project specific funding by the WB MDTF.

4 Balance Sheet and cashflow statement as per 31 December

The accounts were based on an accruals basis for the first time in Q1. As a consequence of using the accruals principle, a balance sheet and a cashflow statement is presented to give a comprehensive financial overview.

Accounts receivable of USD 0.2m consist of committed funding from the World Bank on regional trainings , pilot validation costs and the extractives data project (EDP) expected to be received in Q1 2016. Other receivables of USD 0.1m consist of prepaid costs for insurance and rent in addition to Global Conference costs. Public duties payable of USD 0.2m consist of employers tax and staff salary tax. Other short term

payables of USD 0.9m consist of holiday pay⁴ of USD 0.2m, USD 0.1m in Q4 invoices, USD 0.4m received in 2016 core funding and USD 0.2m in funding for the Global Conference. The currency translation of USD 0.1m is a result of converting the equity in NOK to USD at a higher rate on 31 December 2015 than 31 December 2014.

As a result of the funding shortfall in 2015, total equity as fallen to USD 0.3m equal to the reserve. It is therefore likely that the reserve will be utilised temporarily during the first half of 2016.

Table 8: Balance Sheet as per 31 December 2015

EITI Reporting 2015

All figures in **USD thousands**

	8,81	7,43
Balance Sheet Report	30.12.2015	31.12.2014
<u>ASSETS</u>		
Office equipment, machinery, etc	9	22
<u>Total fixed assets</u>	9	22
Accounts receivable	195	254
Other receivables	107	75
<u>Total receivables</u>	302	328
<u>Bank deposits, cash</u>	1 183	1 318
<u>Total current assets</u>	1 485	1 646
<u>Total Assets</u>	1 494	1 668
<u>EQUITY AND LIABILITIES</u>		
Other equity	1 066	1 066
This periods result	(669)	-
Currency translation	(110)	
<u>Total equity</u>	287	1 066
Accounts payable	138	39
Public duties payable	180	184
Other short term liabilities	889	380
<u>Total current liabilities</u>	1 207	603
<u>Total Equity and Liabilities</u>	1 494	1 668

⁴ The Norwegian system for holiday pay entails accruing approximately one month of salary and paying it out in the following year.

The cashflow statement for the first half of the year reflects a positive cashflow effect from 2014 contributions received in 2015 and negative cashflow effects from 2015 contributions received in 2014.

Table 9: Cashflow Statement 31 December 2015

EITI Reporting 2015

All figures in USD thousands

8,07

Cashflow statement	30.12.2015
Cashflow from operating activities	
Increase (decrease) in result/net assets	(669)
(Increase) decrease in :	
Depreciation	11
Accrued Revenue	20
Prepaid Expenses	(48)
Increase (decrease) in:	
Accrued expenses	168
Public duties payable	142
Deferred Revenue	452
Other (Currency effect)	(212)
Net cash provided from operating activities	(135)
Cashflow from investing activities	
Aquisition of property and equipment	-
Net decrease in cash and cash equivalents	(135)
Cash and cash equivalents, beginning of year	1 318
Cash and cash equivalents, end of period	1 183

5 Conclusion

2015 was a difficult financial year for the EITI. Despite expenditure having been lower than budget, revenue was even lower .

Whilst some expenditure savings can and will be made, it is clear that the falling number of contributors and value of contributions from both supporting countries and companies underline the broad view that the current funding arrangements and formula are not sustainable. It is critical that the incoming Board concludes the future funding arrangements in order to ensure that the EITI has funding arrangements that ensure reliable income. The mandate and tasks given by the Board to the Secretariat has not been matched by funding.

6 Forward Look: Foreseen activities for Q1 2016

The main activities foreseen in the first quarter of 2016 include:

1. The Global Conference in Lima, Peru (reduced budget to USD 1.3 million due to major expenditure cuts).
2. Eleven planned validations. The costs are uncertain as the method for validation has not yet been agreed. Using the same method as for the five pilot validations in 2015, the costs are expected to be around USD 30,000 including Secretariat costs.
3. Preparation for the next Board meeting – costs to be taken in Q2.
4. Recruitment of one Regional Director or Country Manager to cover Anglophone and Lusophone Africa to replace outgoing staff.
5. Final development of the EITI Data Portal on the EITI website – costs to be taken in Q1 and Q2.

With the present funding challenges short term liquidity will be followed up closely. Please see below an overview of forecasted liquidity for the first quarter 2016:

Cash balance 25 January:	USD 1.4 m (including reserve)
Glob Conf costs Jan/Feb:	USD - 1.0m (USD 0.3m paid per date)
Normal Sec costs End Jan-March	USD - 0.8m
Expected contributions up to 31 March	USD 1.1m
Cash balance 31 March	USD 0.7m (including reserve)

The result for Q1 2016 is forecasted to balance with revenues and costs of USD 2.3m including the Global Conference. USD 1.2m in contributions have been received as of 25 January. It should, however, be noted, that the Secretariat tends to receive a good part of its annual funding in Q1 whilst, excluding the Conference, the expenditure is fairly flat throughout the year.

Board members

David Diamond (Chair)

Ali Idrissa

Marine de Carne de Trecesson

Natalya Yantsen

Committee advisors

Alan McLean

Dylan Gelard

Anwar Ravat

Duncan Robertson

Secretariat

Leah Krogsund

Jonas Moberg

Eddie Rich

Brynjar Wiersholm