Revenue Watch Institute
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Disaggregation by Company

Background paper for the EITI Strategy Working Group

April 2012

1. The Importance and Use of Disaggregated Reporting

The need for company-by-company reporting is underpinned by two central EITI Principles: transparency (Principle 5) and accountability (Principle 8). Disaggregated reporting also feeds in to other core Principles of the EITI and benefits governments, citizens and companies by making more information on revenue flows publicly available and by facilitating the responsible management of natural resource revenues.

Governments benefit from disaggregated reporting because they can use the data to reach more equitable agreements regarding their country's natural resources. EITI reports will provide a fuller picture of the participants in the extractive sector and how much they contribute to public funds, information that is often lacking across agencies and branches of government. This means that governments can better manage their country's natural resource wealth for national development (Principle 2).

Citizens benefit because information about company-by-company payments fosters public understanding of the extractive sector and government revenues. Over time, this can facilitate public debate and inform the choice of appropriate and realistic options for sustainable development (Principle 4). Company specific data is of particular interest to local communities who care most about the operators working in their areas. Company disaggregation would enable informed dialogue about the net benefits of resource extraction, fully taking revenue contributions into account.

For companies, disaggregated reporting can reduce political risks, which enhances the environment for domestic and foreign direct investment (Principle 7). Companies benefit because, by making company-by-company information publicly available, they can reduce the suspicion and perceptions of corruption that exist when information is concealed from the public. By revealing their contribution to public revenues, this data can help a company defend itself against public displeasure over inefficient government spending, where the assumption may otherwise be that the government's failure to provide public services is not a result of ineffective management, but instead because the company is not paying enough. This should strengthen companies' license to operate. For example, in Nigeria, companies initially resisted disaggregation but later cited its usefulness as a neutral and trusted report of their revenue contributions, which held greater weight than their previously unilateral publications of the same information.

2. Existing Practice on Disaggregated Reporting

Disaggregated reporting is the norm in countries implementing the EITI. A majority of the countries producing EITI reports disaggregate by company. Currently, the following 18 countries include company-by-company data in their EITI reports: Burkina Faso, Central African Republic, Democratic Republic of Congo, Ghana, Guinea, Iraq, Liberia, Mali, Mongolia, Mozambique, Niger, Nigeria, Norway, Peru, Sierra Leone, Tanzania, Timor-Leste and Zambia.

A small number of companies are actively engaged in arguing against disaggregated disclosure, and even those companies have accepted disaggregated disclosure in countries where the government has decided to adopt such an approach.

With the recent gains in *project-level* reporting (see separate brief), and the widespread embrace of company disaggregation within the EITI, the arguments against this level of disclosure appear to be waning.

3. Implementing Disaggregated Reporting in the EITI

Given that a majority of EITI reports already include disaggregated data, numerous templates for implementing this approach are already readily available. Producing a disaggregated report is not substantially more time consuming or costly because companies already provide disaggregated information on a confidential basis to the entity preparing the reconciliation report.

Also, studies have found that the argument that disaggregated reporting will lead to the disclosure of commercially sensitive data is largely unfounded.[1] Evidence does not suggest that companies operating in countries with disaggregated reporting standards suffer commercial losses. When all companies operating in a country are required to report their payments on a disaggregated basis, they are put on equal footing.

In order to make incorporate disaggregated reporting in the EITI, Requirements 9 and 18 would need to be revised as follows (additions underlined):

Requirement 9 c)

c) To meet these requirements, the multi-stakeholder group should agree:

i. the revenue streams that companies and the government must disclose;
ii. the companies that will report;
iii. the government entities that will report; <u>and</u>
iv. the time period covered by the report; ~~and~~
~~v. the degree of aggregation or disaggregation of data in the EITI Report.~~

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[1] Sefton Darby, *The Case for Company-by-Company Reporting of Data in the Extractive Industries Transparency Initiative*, Revenue Watch Institute, June 2009.

e) The reporting template should collect information disaggregated with respect to each company and each revenue stream."

Requirement 18

"The government and multi-stakeholder group must ensure that the EITI Report is comprehensible and publicly accessible in such a way as to encourage that its findings contribute to public debate.

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b) It is a requirement that the EITI report:

i. clearly sets out the multi-stakeholder group's agreed definition of "material payments and revenues", and lists and describes the revenue and benefit streams that are included in the report;

ii. includes disaggregated data with respect to each company and each revenue stream;