

EITI reporting by key producing-region

The objective of this note is to provide concrete advice to EITI MSGs and stakeholders on how to address, flexibly and voluntarily, EITI reporting by key producing-regions as an annex to EITI main annual report.

EITI extension to producing-regions

From a country perspective, where oil/gas or mining-producing regions are facing the issue of lack of trust among government authorities, civil society, and companies, the sub-national EITI has the potential to have a strong impact on accountability. Implementation at the sub-national level could help anchor EITI in a given country and achieve its expected impact on accountability. If citizens and CSOs from natural resource-rich countries are to discern the volumes of revenues accessed (taxes plus transfers) by sub-national governments, and understand how this access is determined, then the contribution EITI can make is by disclosing disaggregated payments and intergovernmental transfers to sub-national government levels.

From an EITI perspective, sub-national EITI, by expanding the scope and outreach of the initiative in an implementing country, is a way of strengthening EITI local ownership among stakeholders. In countries with a significant resource-revenue-sharing system in place, using EITI at the sub-national level provides EITI implementing countries a clear opportunity to address governance and lack of trust issues in their key producing regions. This is the scale at which lack of transparency directly affects the interests of the local population and operating conditions for companies to invest in and develop natural resources. Failure to include such flows risks damaging the perceived relevance of the EITI in those countries.

EITI rules address explicitly the sub-national dimension of EITI. Under the EITI's new rules, countries are encouraged to include SNG resource-revenues as part of their reporting framework. The challenge ahead is to provide consistent guidance and quality assurance for EITI reporting by producing-regions.

Current reporting practices

Four different forms of possible sub-national EITI reconciliation can be identified from existing reporting practices:

1. The reconciliation process focused on direct EI revenues collected by the sub-national governments and compared them to companies' payments (revenue collection, i.e. Mongolia).
2. The effort focused on revenue transfers from the central to the sub-national governments and compared them to the sub-national governments' receipts (revenue distribution cash flow, i.e. Peru).
3. The process focused on revenue transfers from the central to the sub-national governments and compared them to the rules that should be applied (revenue distribution process, i. e. Ghana).
4. In addition to these sub-national EITI reconciliation processes, some governments have decided to unilaterally disclose sub-national governments' expenditures (i.e. Ghana).

Disclosure and reconciliation by producing-region

Challenges in reporting by producing-region include definition of what provinces or districts to report on, which sub-national revenue streams will be reported, the threshold level for selecting reporting regions, which companies will need to disclose data, and most importantly, which reporting government agencies will be considered for implementing the reconciliation process. The issue of which resource-revenue streams are material and which are not should be treated under different criteria, depending on the country's

issues in relation to revenue transparency. Each MSG at country level would have its own definition of materiality for sub-national revenue streams.

- **What would be reported?**
 - ✓ Access to revenue resources through direct payments: how much money has flowed to the selected producing-region through direct payments from operating extractive companies
 - ✓ Access to transfers of resource-revenues from the central government to the region: only those transfers derived exclusively from resource-revenue
- **What kind of reconciliation work does this entail?**

Reconciliation would compare and explain possible discrepancies of:

- companies' payments in relation to SNG receipts, and
- federal/national transfers in relation to sub-national governments receipts (government-to-government "payments")

- **What data need to be provided?**
 - Companies would have to provide data on all the relevant payments made to SNGs, and the SNGs would have to provide data on all relevant revenues they directly collect/receive from extractive industries.
 - National government entities would have to provide data on all the relevant transfers made to SNGs, and the SNGs would have to provide data on all relevant revenues they indirectly access from extractive industries.

A generic template for sub-national revenue reporting

According to IMF Revenue classification, EITI sub-national reporting template could be based on IMF's Government Finance Statistics Manual (GFSM 2001) which provides a standard framework for developing a new budget classification structure. The GFSM 2001 was developed primarily as a statistical reporting framework and is generally not sufficient for the purposes of developing a budget classification system. ***Data that should be considered by sub-national government officials are those *exclusively originated on extractive industries operations*.

11 Taxes

111 Taxes on income, profits, and capital gains

1112 Payable by corporations and other enterprises

112 Taxes on payroll and workforce

113 Taxes on property

1131 Recurrent taxes on immovable property

1135 Other nonrecurrent taxes on property

1136 Other recurrent taxes on property

114 Taxes on goods and services

1145 Taxes on use of goods and on permission to use goods or perform activities

11451 Motor vehicle taxes

11452 Other taxes on use of goods and on permission to use goods or perform activities

116 Other taxes

1161 Payable solely by business

13 Grants

133 From other general government units

1331 Current

1332 Capital

14 Other revenue

143 Fines, penalties, and forfeits

144 Voluntary transfers other than grants

1441 Current

1442 Capital

145 Miscellaneous and unidentified revenue