The Extractive Industries Transparency Initiative and the Fair Shares Debate

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Seminar on Risk Mitigation and CSR in the Mining Sector

London 31st October 2014

EITI Extractive Industries Transparency Initiative

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Agenda

- History of EITI and how it works
- Current state of play – the EITI Standard
- Impact and attitudes in the mining sector
- Transparency, Resource Nationalism and the Fair Shares Debate

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History

- Concept launched at Johannesburg Summit in 2002
- EITI Principles adopted – 2003
- EITI Criteria and Sourcebook (advisory) – 2005
- International Secretariat established in Oslo – 2007
- EITI Validation Guide – 2008
- EITI Rules adopted – 2011
- EITI Standard adopted – 2013

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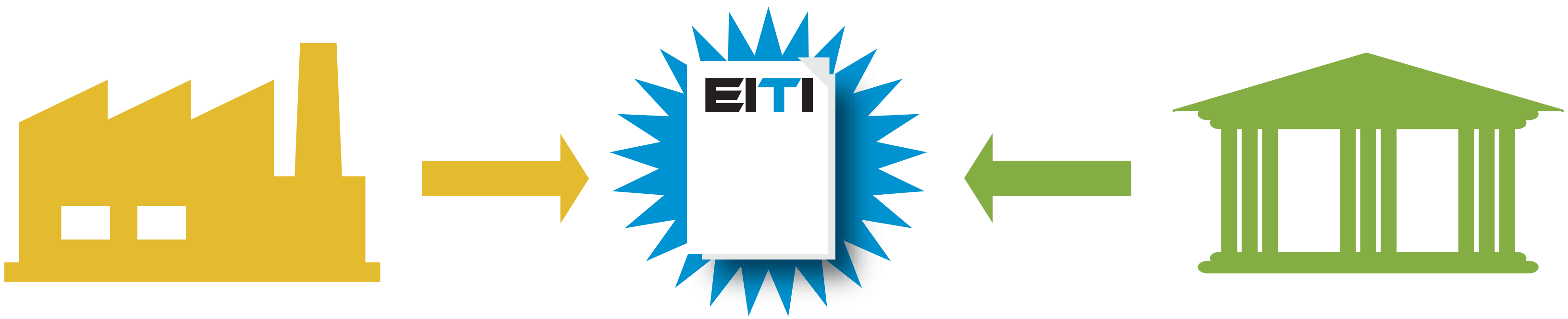
The EITI Standard has two core elements:

Companies publish what they pay and governments publish what they receive in an EITI Report.



COMPANIES
disclose payments

EITI REPORT
where the tax and royalty payments are independently verified and reconciled

GOVERNMENTS
disclose receipt of payments

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The EITI Standard has two core elements:

This process is overseen by a multi-stakeholder group of governments, companies and civil society.

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"We recognize that a **public understanding** of government revenues and expenditure over time could help public debate and **inform choice** of appropriate and realistic options for **sustainable development**."
EITI Principle 4

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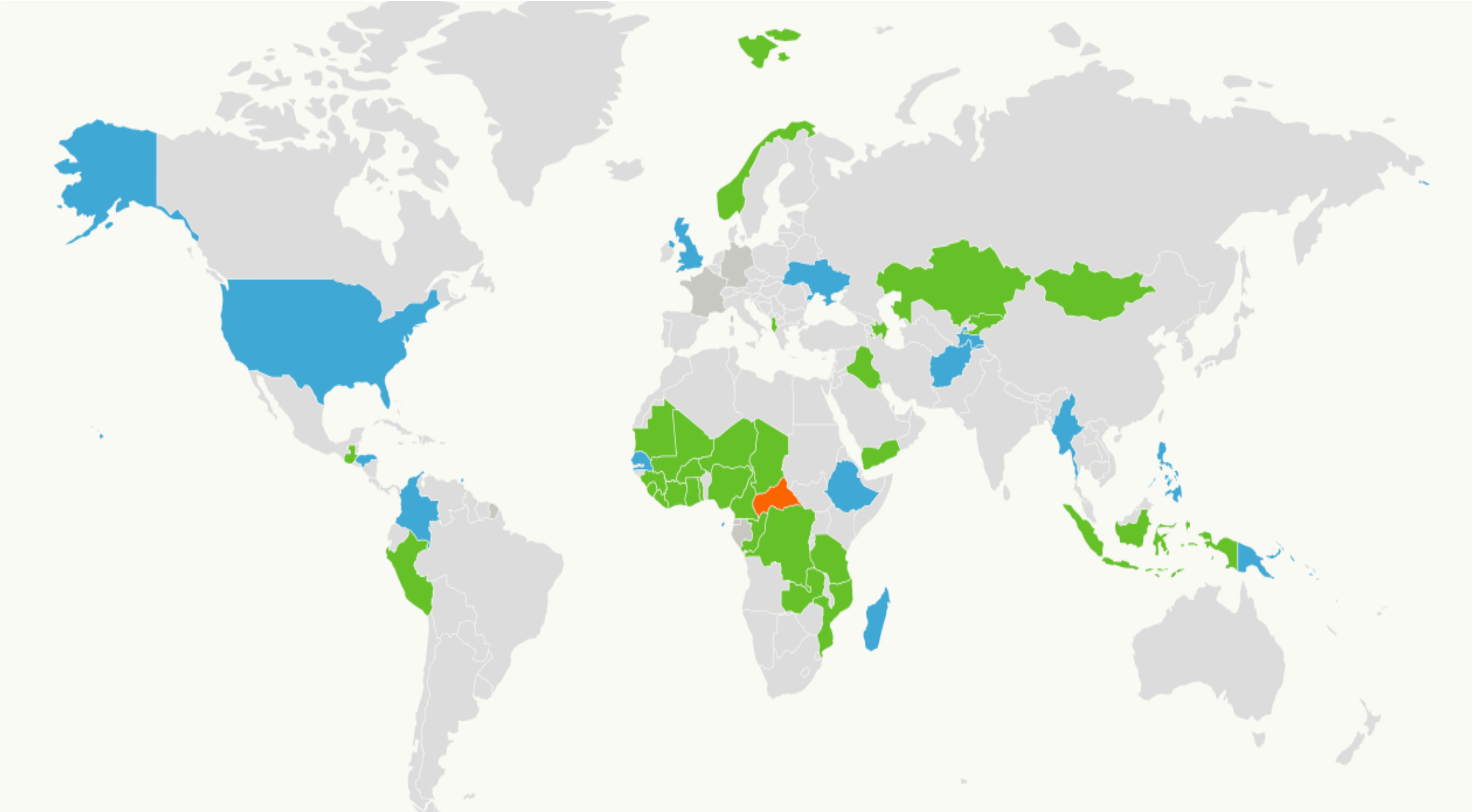
48 countries now implement the EITI Standard around the world



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Seven Requirements of the EITI Standard

1. Effective oversight by Multi Stakeholder Group (MSG)
2. Timely publication of EITI Reports
3. EITI reports must contain contextual information about the oil, gas and mining sectors
4. Production of comprehensive EITI reports including disclosure of government revenues and company payments
5. Figures must be subject to credible assurance/audit to international standards
6. EITI reports must be comprehensible, actively promoted, accessible and contribute to debate
7. National MSGs must act on lessons learned and review outcomes and impact of EITI implementation

The EITI Standard - 2013

- Widened scope to cover more elements of the value chain
- New **requirements** include: coverage of SOEs; license registries; transit revenues; sub-national flows; mandatory social expenditures
- **Encouraged** activities: contract transparency; beneficial ownership; transparency around how revenues are budgeted for and spent
- Greater scope for additional elements to be adopted by national MSGs – in pursuit of relevance and impact
- Possibility of International Board agreeing to ‘adapted implementation’ (e.g. for US and Iraq)

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Progress and Outcomes

- 48 EITI Implementing Countries – 31 ‘compliant’; 17 candidates
- Over 90 international supporting oil, gas and mining countries and 90+ global investment institutions
- 15 ‘supporting’ donor countries and extensive involvement from World Bank, IMF etc
- EITI Reports have been produced for 207 fiscal years from 35 countries
- $1,332 billion in government receipts from extractive sector have been opened to scrutiny
- Created greater expectations of transparency
- Innovations around sub-national (Peru, Ghana), process audits (Liberia), examination of how money was spent (Nigeria)
- One of the most successful MSIs in any sector
- An important element in addressing resource governance challenges

Attitudes within the mining sector

- Major companies gave support in the hope of combating corruption, supporting good governance and improving the investment climate
- At international level the mining sector has sought to be pro-active in promoting reforms within EITI
- Mining companies are keen to be ‘part of the solution’ rather than ‘part of the problem’
- Although there is some scepticism about direct beneficial impacts in-country; few point to direct damage to the industry
- Biggest potential benefits for the sector arise from increased dialogue; building social capital and greater understanding of mining’s overall contribution

From the point of view of the mining industry what do you think the impact of EITI implementation in your country has been?

- *‘The process has supported the industry and allowed fair and balanced disclosure’* **Cote d’Ivoire**
- *‘Mostly positive especially as industry, government and civil society can prove to be working together for the interests of the people’* **Indonesia**
- *‘The bad perception of mining in* ***Mali*** *is starting to be turned off. We know that stakeholder expectations are to see more involvement of local suppliers’*
- *It is providing a level playing field for investors from different countries’* **Madagascar**
- *‘There is too much emphasis on turnover and none on profits – comparisons of tax paid against gross turnover are totally misleading’* **Tanzania**
- *‘It could be argued that the government took inspiration from the ITI to implement policy reforms that tightened the fiscal regime’* **Ghana**

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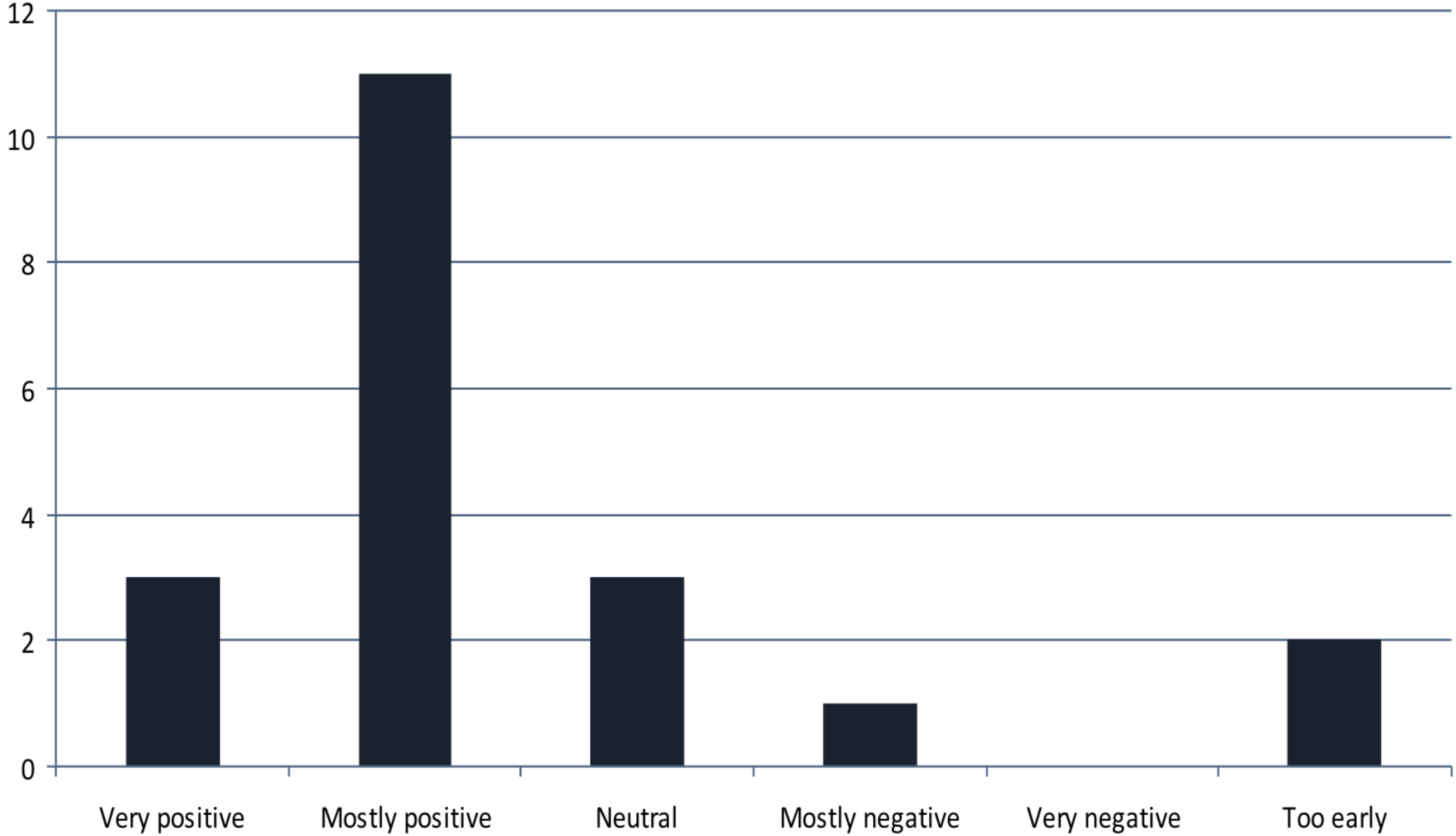
What impact do you perceive the EITI has had in your country?



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Challenges

- Juxtaposition with mandatory home country reporting
- Avoiding misleading comparisons between
- Host country capacities as EITI becomes more complex
- Addressing reporting time lags in a ‘real time’ world
- Avoiding inappropriate ‘mission creep’
- Ensuring that figures are not undermined by allegations of trusted
- Absorbing OECD countries – ‘striving for relevance’
- Impact of falling commodity prices
- Increase focus on how money is used
- Protection of civil society freedoms

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The Fair Shares Debate

- EITI is not a forum for determining 'right' tax levels – but discussion of the issue is inevitable
- Significant perception lag around mineral 'super-cycle'
- Important that national company representatives are well briefed
- Companies need to get better at understanding and describing their economic contribution

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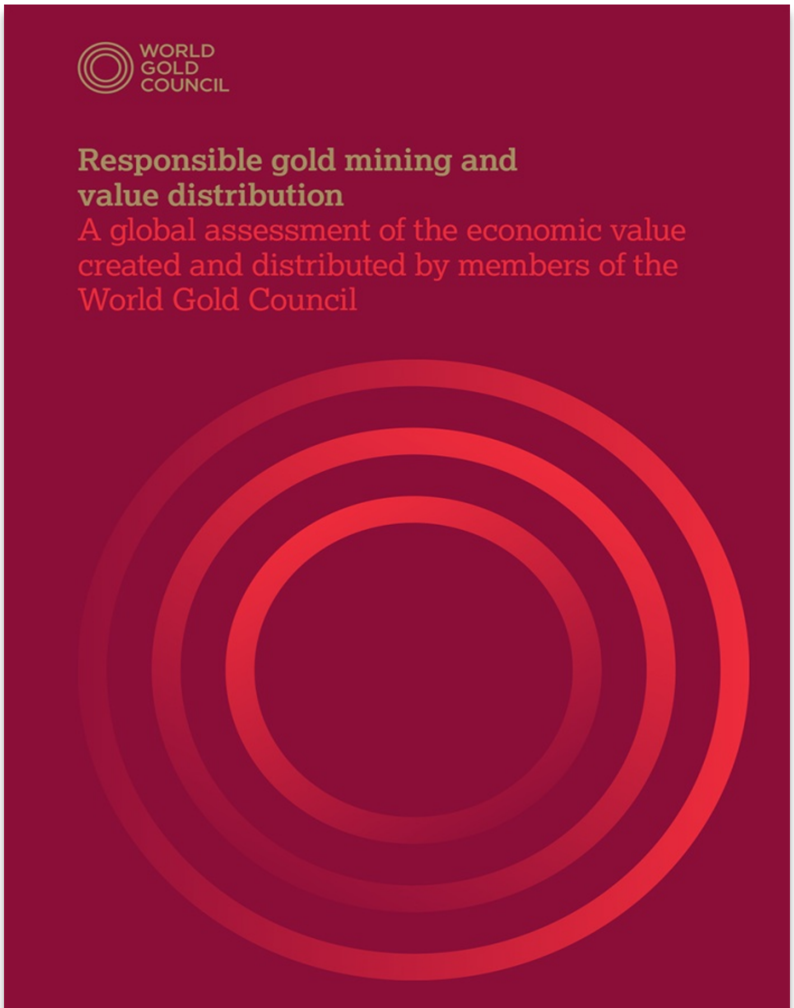
Understanding and explaining the gold industry's socio-economic contribution



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World Gold Council Value Distribution Report 2013 - Key figures

15	*participating companies*
220,000	*number of employees and contractors*
96	n*umber of operating gold mines*
804	*Gold tonnage in 2012 produced by those in the report*
469	*Gold tonnage produced in 2012 in non-OECD countries (58% of total)*
$55bn	*total expenditure by participating companies in 2012*
$35bn	*total payments to businesses*
$8.4bn	*total payments to governments (taxes, royalties etc.)*
$3.4bn	*total payments to 'providers of capital' (shareholders and lenders)*
79	*% of expenditure incurred in-country*
7%	*increase in gold tonnage from 2009 to 2012*
85%	*increase in total expenditure from 2009 to 2012*

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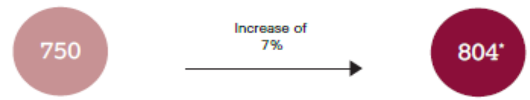
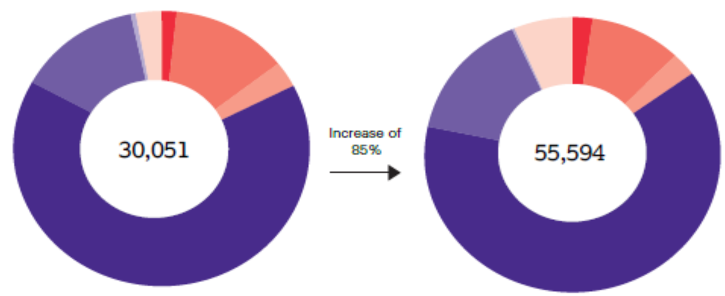
Global Value Creation and Distribution 2013

Gold output (tonnes)	2009	2012

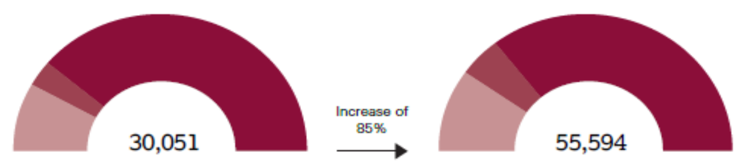


	2009	2012
Number of participating companies	12	15
Number of participating employees and contractors	149,615	222,447
Number of producing operations	88	96

Total expenditure (US$m)	2009	2012



	2009	2012
Royalty payments to government	542	1,389
Income tax payments to government	3,826	5,494
Other payments to government	961	1,575
Payments to businesses	19,690	35,157
Wages/salaries	4,098	8,290
Community investments	121	285
Payments to providers of capital	814	3,404



	2009	2012
Payments in country (producing operations)	23,320	39,243
Payments in country (non-producing operations)	1,756	5,425
Payments out of country	4,975	10,926

* This survey represents gold output from participating companies of 804 tonnes in 2012. Total mined gold in 2012 was 2,848 tonnes.

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Conclusions

- Greater transparency has a significant role to play in improving governance in the extractive sector
- The (informed) public generally significantly under-estimate industry's economic contribution
- Industry should embrace and use transparency to increase trust and public understanding
- The biggest contribution to citizen's welfare from EITI would be greater transparency around the use of revenues
- EITI is both a threat and an opportunity depending upon the extent to which we help to shape it
- Mining is widely seen as more 'progressive' than oil and gas on this agenda
- Companies should better understand how the benefits from their operations are shared

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