

Role of EITI in Identifying and Reconciling revenues collected and compressive disclosure of taxes and revenues

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Online session on 4.4.24 with auditors from global SAIs as participants

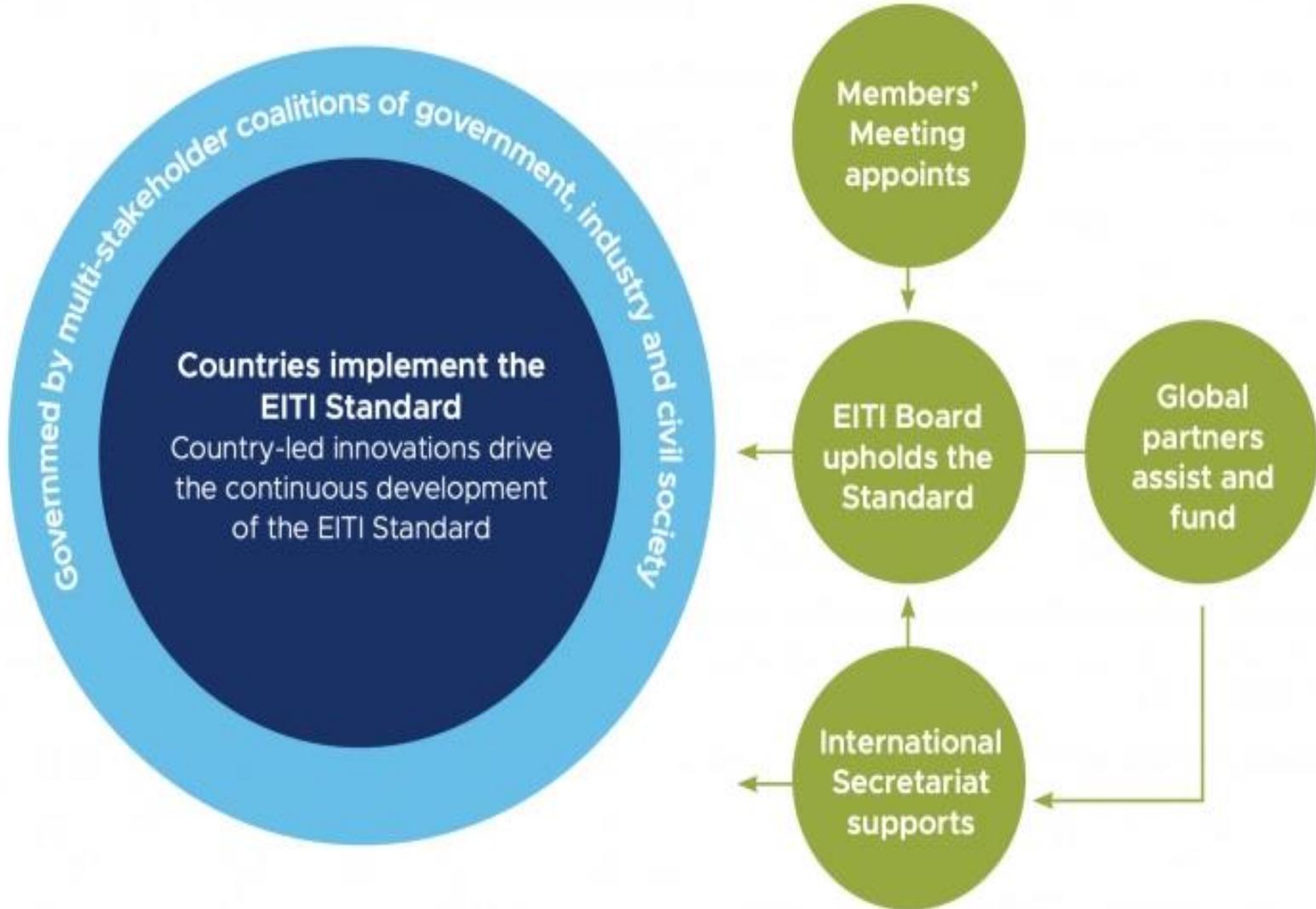
Role of EITI

- The EITI is a voluntary global coalition of government.
- **The EITI promotes the open and accountable management of oil, gas and mineral resources.**
- India is not a member of the Extractive Industries Transparency Initiative (EITI).
- In 2019, the Indian government adopted the United Nations Framework Classification (UNFC) to report mineral resources, exploration status, and extraction feasibility.

EITI (Extractive Industries Transparency Initiative)

- EITI is a global standard that promotes transparency and accountability in the extractive industries, including oil, gas, and mining.
- It encourages member countries to disclose information about payments made by companies to the government and how these revenues are used, fostering transparency in the extractive sector.
- The primary goal is to prevent corruption, ensure fair revenue distribution, and enhance the management of natural resources for the benefit of citizens.

EITI Association



Governance

- The EITI is a multi-stakeholder organisation comprised of governments of implementing and supporting countries, companies and civil society organisations.
- The international [EITI Board](#) serves as its main decision-making body and is supported by the [EITI International Secretariat](#).
- The EITI is governed by the EITI Articles of Association, which form part of the [EITI Standard](#).
- It is [registered](#) as a non-profit association under Norwegian law.

EITI countries

57 COUNTRIES IMPLEMENT THE EITI STANDARD like Afghanistan, Azerbaijan, Canada, Democratic Republic of Congo, Ghana, Indonesia, Kazakhstan, Mexico, Nigeria, Norway, Peru, United Kingdom, United States

EITI Standard 2023

The EITI Standard outlines the requirements applicable to countries implementing the EITI as well as the Articles of Association governing the EITI.

- **Part 1** of the EITI Standard ("Principles and requirements") comprises the following sections:
- **EITI Principles**: The EITI Standard has its origins in the EITI Principles (Section 1), which were agreed by a diverse group of countries, companies and civil society organisations when the EITI was formed in 2003, to increase transparency over payments and revenues in the extractive sector.
- **Becoming an EITI implementing country**: Countries that intend to implement the EITI Standard are required to undertake a number of steps before applying to becoming an EITI implementing country, as outlined in Becoming an EITI implementing country (Section 2).
- **EITI Requirements**: The EITI Standard sets out the EITI Requirements (Section 3) for countries implementing the EITI and oil, gas and mining companies operating in these countries. A national multi-stakeholder group – comprising government, industry and civil society representatives – oversees EITI implementation and sets objectives that reflect national priorities for extractive sector management.
- **Expectations for EITI supporting companies**: Oil, gas and mining companies uphold the EITI Standard by reporting in EITI implementing countries where they operate, and by actively engaging in the EITI process in implementing countries through their participation in multi-stakeholder groups. EITI supporting companies further support EITI implementation by meeting the Expectations for EITI supporting companies (Section 4).

- **Protocol: Participation of civil society**: The participation of civil society is fundamental to achieving the objectives of the EITI. The Protocol: Participation of civil society (Section 5) sets out provisions on ensuring the full, active and effective engagement of civil society in EITI implementation.
- **EITI Association Code of Conduct**: Stakeholders are required to observe the highest standards of integrity and ethical conduct and to act with honesty and propriety, in line with the EITI Association Code of Conduct (Section 6). This applies to all EITI Office Holders, including Members of the EITI Association, EITI Board members, their alternates, secretariat staff (national and international) and members of multi-stakeholder groups.
- **Open data policy**: Open data lies at the core of the EITI's mission to promote the open and accountable management of natural resources. By making data easily accessible, comprehensible and usable, EITI reporting can strengthen public debate, inform decision-making and promote public understanding of natural resource management. These objectives are underpinned by the EITI's Open data policy (Section 7).
- **Part 2** of the EITI Standard ("EITI Board oversight and Validation") outlines the procedures and criteria that determine how the international EITI Board oversees and assesses implementation of the EITI Standard. **Part 3** ("EITI governance and management") addresses how the EITI Association is governed.

Validation

- Assessing progress in meeting the EITI Standard
The EITI holds all implementing countries to the same global standard. Through Validation, the EITI's quality assurance mechanism, implementing countries are assessed on their ability to meet the provisions of the [EITI Standard](#).
- Validation promotes dialogue and learning at a country level, providing countries with an opportunity to communicate progress and to identify and address challenges in EITI implementation. It captures stakeholder views and allows countries to highlight their perspectives on the effectiveness and sustainability of EITI implementation. It acknowledges that countries have different starting points and face diverse challenges in implementing the EITI, and that they will use the EITI to address their most pressing priorities for improving extractives governance.

Guide to implementing the EITI Standard

- guidance aims to support national EITI multi-stakeholder groups (MSGs) and national secretariats in implementing the EITI Standard.

Sign-up and governance

- **Requirement 1**
- [Requirement 1](#) requires effective multi-stakeholder oversight, including a functioning multi-stakeholder group that involves the government, companies, and the full, independent, active and effective participation of civil society.

Legal framework, contracts and licenses

- **Requirement 2**
- [Requirement 2](#) requires disclosures on how the extractive sector is managed, enabling stakeholders to understand the laws and procedures for the award of exploration and production rights, the legal, regulatory and contractual frameworks that apply to the extractive sector, and the institutional responsibilities of the state in managing the sector.

Revenue collection

- **Requirement 4**
- [Requirement 4](#) requires comprehensive disclosure of company payments and government revenues from the extractive industries.

Revenue allocations

- **Requirement 5**
- [Requirement 5](#) requires disclosures of information related to revenue allocations, enabling stakeholders to understand how revenues are recorded in the national and where applicable, subnational budgets.

Social and economic spending

- **Requirement 6**
- [Requirement 6](#) encourages disclosures of information related to revenue management and expenditures, helping stakeholders to assess whether the extractive sector is leading to the desirable social and economic and environmental impacts and outcomes.

Validation

- Through [Validation](#), the EITI's quality assurance mechanism, implementing countries are assessed on their ability to meet the provisions of the [EITI Standard](#).

Systematic disclosure

- In accordance with the [EITI open data policy](#), systematic disclosure is a default expectation for EITI reporting.

Terminology

- **Mandatory requirements:** The terms “required” and “must” in the EITI Standard indicate that the requirement is mandatory and will be taken into account in the assessment of progress in meeting the EITI Standard.
- **Expected requirements:** The term “expected” in the EITI Standard indicates that the multi-stakeholder group should consider the issue and document its discussions, the rationale for disclosure/non-disclosure and any barriers to disclosure. Validation will consider and document the discussions by the multi-stakeholder group.
- **Encouraged requirements:** The term “encouraged” and “could” in the EITI Standard indicate that the requirement is optional. Efforts by the multi-stakeholder group will be documented in Validation but will not be taken into account in the overall assessment of progress in meeting the EITI Standard.

Outcomes and impact

- **Requirement 7**
- [Requirement 7](#) related to outcomes and impact seek to ensure that stakeholders are engaged in dialogue about natural resource revenue management.

- The Extractive Industries Transparency Initiative (EITI) plays a crucial role in promoting transparency and accountability in the extractive industries, particularly in the oil, gas, and mining sectors.
- Its main objectives are to disclose information about the revenues generated from these industries and ensure that these revenues are managed and utilized in the best interest of the public.
- Here's how EITI contributes to identifying, reconciling revenues, and promoting comprehensive disclosure of taxes and revenues:

- **Disclosure of Payments:**
 - EITI encourages member countries to disclose detailed information about payments made by extractive industry companies to the government. This includes taxes, royalties, production entitlements, and other significant financial contributions.
 - By making these payments publicly available, EITI helps in identifying the actual revenues received by the government from extractive industries.
- **Comprehensive Reporting:**
 - EITI requires comprehensive reporting not only from government agencies but also from extractive companies. This ensures that the full picture of financial transactions, including taxes and other revenue streams, is disclosed.
 - By having both sides of the transaction report, discrepancies can be identified and reconciled, contributing to a more accurate and complete understanding of the revenues involved.
- **Reconciliation of Payments:**
 - EITI facilitates the reconciliation of payments made by companies with the corresponding revenues received by the government. This reconciliation process helps identify any discrepancies or inconsistencies in the reported data.
 - Reconciliation is crucial for building trust and confidence among stakeholders by providing assurance that the reported financial information is accurate and reliable.

- **Multi-Stakeholder Engagement:**
 - EITI involves multiple stakeholders, including government, industry, and civil society, in the reporting and decision-making processes. This multi-stakeholder approach ensures that various perspectives are considered and that all relevant information is disclosed.
 - Engaging civil society organizations and the public helps in holding both governments and companies accountable for their actions, including the accurate reporting of revenues.
- **Policy Reforms and Capacity Building:**
 - EITI supports its member countries in implementing policy reforms to strengthen their legal and institutional frameworks for resource governance.
 - It also provides capacity-building assistance to governments to improve their ability to manage, collect, and report on extractive industry revenues accurately.

The Extractive Industries Transparency Initiative (EITI) is a global standard that promotes open and accountable management of natural resources. It focuses on the oil, gas, and mining industries and aims to ensure that the revenues generated from these sectors are transparently managed for the benefit of the citizens. Here's how EITI typically functions:

- **Multi-Stakeholder Approach:** EITI operates on a multi-stakeholder approach, involving governments, extractive industries, and civil society. This collaborative effort helps ensure that diverse perspectives are considered in the process.
- **Transparent Reporting:** Participating countries commit to disclosing comprehensive information about their extractive industries, including production volumes, revenues generated, and payments made by companies. This information is typically made available in an annual EITI report.

- **Reconciliation Process:** One of the key features of EITI is the reconciliation process. Governments disclose the revenues they receive from extractive industries, and companies disclose the payments they make. An independent reconciler then compares these figures to identify any discrepancies and ensure that all payments are accounted for.
- **Public Availability:** The information gathered through the EITI process is made publicly available. This transparency allows citizens to understand how much revenue their country is generating from natural resources and how these funds are being used.
- **Policy Recommendations:** EITI processes often lead to policy recommendations aimed at improving governance and transparency in the extractive industries. These recommendations can contribute to better management of natural resources, reduced corruption, and increased accountability.

If India were to join EITI or consider its principles, here's how EITI could play a role in the comprehensive disclosure of taxes and revenues:

- **Increased Transparency:** EITI encourages member countries to disclose comprehensive information about the extractive industries, including details about taxes paid by companies and revenues received by the government. This increased transparency helps create a clearer picture of the financial transactions within the sector.
- **Reconciliation Process:** EITI involves a reconciliation process where the reported payments by companies are compared with the revenues declared by the government. This reconciliation process helps identify any discrepancies and ensures that all payments are accounted for. This can be particularly useful in preventing revenue leakage or corruption.
- **Public Availability of Information:** One of the core principles of EITI is making information publicly available. By disclosing details about taxes and revenues in the extractive industries, the public gains access to crucial information about how natural resources are being exploited and how the resulting revenues are being managed.

- **Policy Recommendations:** The EITI process often results in policy recommendations aimed at improving governance and transparency. These recommendations can include suggestions for enhancing tax policies, ensuring fair revenue distribution, and improving overall accountability in the extractive industries.
- **Capacity Building:** EITI provides support for building the capacity of governments and civil society organizations to effectively participate in the transparency process. This includes training on data collection, analysis, and utilization of disclosed information.

It's important to note that for EITI to have an impact, a country needs to be a member, and the government, along with relevant stakeholders, must commit to implementing and following the EITI standards.

EITI strategic priorities

The EITI's strategic framework seeks to ensure that EITI implementation continues to be relevant, responsive and cost-effective, in view of the diverse challenges faced by resource-rich countries. It envisages **six key areas where the EITI can be used to improve extractive sector governance** through and beyond the COVID-19 crisis, remaining true to the principles that underpin the EITI's work.

- **Supporting the energy transition:** It will have a transformative impact on the extractive industries and global economy. It can help address governance risks in the face of anticipated growth in demand for minerals that are needed for the energy transition.
- **Addressing corruption risks:** Priorities include strengthening communications on the EITI's role in addressing corruption; corruption issues; and building partnerships with groups involved in anti-corruption activities.

- **Strengthening revenue mobilisation:** Revenue mobilisation is critical for supporting national development and public expenditure priorities, especially in the face of economic downturns and commodity price volatility. The revenues are maximised for public benefit rather than private gain.
- **Informing investment decisions:** Investment decisions in the extractive sector are increasingly informed by environmental, social and governance (ESG) metrics. Data published by companies and investors.
- **Publishing open data:** Timely, usable and accessible data to inform decision-making, foster independent analysis. Open data will enable multi-stakeholder groups to shift their role from producing reports to data use, analysis and dissemination.
- **Measuring impact:** The EITI independent evaluation and committed to develop a measurement framework that can be adapted by implementing countries and streamline its key performance indicators.

Indian scenario

- The mining industry is critical for India because of its substantial contribution to the economic growth of the country.
- Intending to become a \$5 trillion economy by 2027, the mining sector has a huge role to play as it's one of the most significant contributors towards the Gross Value Addition (GVA) with a total standalone contribution of INR 3,27,984 crores in 2021-22, an approximately 12% rise Yo-Y
- The auction of 415+ mines in a short span of five years
- FDI has been staggeringly low in the sector, with little to no participation mainly because of stringent regulatory compliances and lack of essential data for due diligence.
- At present, India has approximately 252 mines of both metallic and non-metallic minerals at G4 exploration stage and another 180 in G3/G2 level since 2022
- Extending the Time-to-market (TTM) for these newly found deposits.
- Critical Factors & their Challenges are technical, socio-economic and financial.
- Contribution towards the Exploration Budget is very less than Global level.
- Statutory mining rights processing time in India Vs Other mining nations.

SUMMARY

- The Extractive Industries Transparency Initiative (EITI) acts as a catalyst for greater transparency and accountability in the extractive industries.
- By promoting comprehensive disclosure, reconciling payments, and engaging multiple stakeholders, EITI contributes to the identification and accurate reporting of revenues generated from extractive activities, including taxes.
- This, in turn, helps in ensuring that these revenues are utilized for the benefit of the public and the sustainable development of the respective countries.

- In the context of India or any other country, joining EITI could potentially lead to increased transparency and accountability in the management of revenues from extractive industries.
- It can also help identify areas for improvement in governance and contribute to informed public discourse on the use of natural resource revenues.
- If India has joined EITI or decides to do so in the future, it would be essential to follow the specific developments and initiatives undertaken in the country regarding the disclosure of taxes and revenues in the extractive industries sector.



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