

EITI and the Mining Sector: Stakeholder research report



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A. INTRODUCTION AND METHODOLOGY

The EITI Secretariat has commissioned Jim Rader and Christina Sabater from Avanzar to find ways to further the implementation of EITI in the mining sector and in mining-dependent countries.

Avanzar conducted desktop research and a series of interviews with key representatives from host governments, civil society, multilateral organizations, international extractive companies and the EITI Secretariat to obtain a cross-section of information regarding what is unique and challenging about the mining (as opposed to the oil/gas) sector as it relates to EITI buy-in within the industry, and EITI implementation in mining countries.

As result of our 25 interviews, we have produced the following report that captures the lessons provided by the stakeholders interviewed; identifies barriers to implementation as well as opportunities for strengthening EITI; and recommends ways forward to address the challenges and take full advantage of the opportunities. Appendix 1 includes a list of the people interviewed.

It is important to note that the scope of this project was limited to a total of 20 interviews to be conducted within approximately 5 weeks time. Due to these limitations, Avanzar focused on core stakeholders selected after discussions with the EITI Secretariat, our knowledge of the mining industry and availability during the designated timeframe. Because of the limited scope, Avanzar considers the report's conclusions preliminary and the report itself represents a work in progress.

Since this report is based on stakeholder opinions which were gathered over the phone, we apologize for any errors in fact or interpretation. We have tried to represent the opinions expressed as directly as possible.

B. KEY FINDINGS AND RECOMMENDATIONS FROM RESEARCH AND CONSULTATION

All the stakeholders interviewed considered the EITI brand a strong one that has the political support from the United Kingdom, the World Bank and civil society focused on revenue transparency. They also stated that EITI can be a strong entry point for discussions with host governments around the issue of transparency and financial disclosure.

However, EITI implementation in the mining sector has not been proceeding well. Most corporate, civil society and government representatives stated that progress is moving slowly due to EITI's original focus on the oil sector. In order to improve implementation, a series of differences between the mining sector and the oil and gas sector were noted.

Most importantly, revenue transparency is not the major issue in the mining sector, while contributing to sustainable development is. Without a link to good governance, there is not a clear business case for mining companies to proactively encourage EITI in most countries

where they operate. We also found that revenue transparency on sub-national revenues is more important due to mining's large local footprint. As well, the nature of the mining industry results in smaller revenue flows than the oil and gas industry and a more diverse ownership structure, both mediating influences when it comes time to implement an initiative such as EITI. Interestingly, though the industry includes a larger variety of products and relevant producers, corporate payments to the government are usually less complex than in the oil and gas sector.

In addition to these industry differences, we also heard specific issues relating to each of the key stakeholder groups interviewed.

EITI Structure and process: Most interviewees noted that the EITI Secretariat has overextended itself and does not have the ability to support in-country implementation in the detailed and close manner which observers believe is necessary if the EITI initiative is to be successful. The combination of a large number of countries targeted and the small and lean staff of the Secretariat has meant that: host governments perceive a lack of support and attention from the EITI Secretariat; civil society representatives perceive the Secretariat does not watch to ensure adequate implementation by the government; inter-institutional and bilateral coordination could be improved; and engagement of non-IAG members has been weak.

Recommendations: Most people interviewed suggested a more focused approach on the mining sector, including the suggestion to create a separate mining sub-group that focuses on implementing EITI in mineral dependant countries. This sub-group would provide an opportunity for industry associations, representatives from southern countries, multilateral actors and more mining-focused international NGOs to integrate into the process in a more effective way. This sub-group could also provide the mining expertise currently lacking in the Secretariat and the IAG which expertise is necessary to adapt EITI to the reality of the sector. By integrating other actors in a more deliberate and formal, strategic and coordinated approach on addressing the specific challenges of the sector (of which EITI/revenue transparency is only a part), additional political and/or financial resources might be leveraged to move EITI forward in a greater number of countries.

In order, to assure corporate, host government and NGO support, EITI will have to link to the broader good governance agenda. Only with this link will mining sector actors see the business case for proactively supporting EITI.

Most corporate and in country stakeholders mentioned the need for greater engagement on the ground. One person used the term 'accompaniment' for what is needed and that term seems appropriate, implying as it does a longer-term, more consistent and generally, more engaged support throughout the entire in-country EITI implementation process. This action should be much easier to implement if the principal mining industry actors are coordinated through a centralized sub-group.

Host governments: All the government representatives interviewed mentioned that greater accompaniment during the in-country process would be very helpful. This support can take

place, for example, through the sharing of lessons learned with other government officials, coordination of political support from other home governments, and coordination of incentives through multilateral and bilateral lenders. Others found that there was a lack of adequate incentives and rewards to get the attention and political will of top government officials.

Recommendation: There were no specific recommendations for host countries, except to note that sufficient in-country political support for EITI to go forward is essential for success and requires political, as well as technical and/or financial support from a variety of external actors.

International mining companies: In Azerbaijan, BP took the brunt of the workload to push EITI implementation forward. Mining companies have not taken this leadership in the countries where they operate and are reluctant to do so, seeing EITI as a government-to-government initiative. Some companies interviewed believed that they are already doing sufficient work on revenue transparency through their membership in ICMM. Others mentioned that they would be more supportive if their home government were also more supportive of the initiative. Generally, companies stated that if EITI is not linked to good governance, then they don't have strong reasons to proactively support it, as it does not go far enough in addressing the major overall issue for the mining sector which is ensuring that the economic activity generated by mining contributes to an improvement in general societal well-being in the areas where they operate.

Recommendations: International mining companies could do more to ensure that EITI is successfully advanced in key mineral dependent countries. In particular, they could use their leverage in particular countries with government and local mining actors to move an EITI/good governance agenda forward. At the same time, their industry-specific issues need to be addressed. The incorporation of ICMM, an organization that represents the largest international mining companies, into the EITI process in a more formal way would be a first step.

Investment industry: Mining companies stated that with few exceptions the main investment analysts do not consider financial transparency of host governments as a key indicator of investment risk. Only investors who are looking out over the longer term see the potential risks in operating in environments that are not transparent.

Recommendation: Though this sector was considered very influential, there were not a large number of ideas on what could be done with it, other than to engage them more proactively so that they include EITI in their investment and risk analyses. This might be a coordinated initiative with the ICMM and/or mining actors.

Civil society: International and national NGOs focused on mining are interested in the environmental and social impacts that a mine has on a particular region, not revenue transparency. Consequently, there are few civil society pressures on the mining industry or mineral dependant countries to disclose mining related payments, as such; the focus is on the broader contribution, or not, of the sector to societal well-being. It was also reported that

civil society needs more political and technical support to participate in implementation processes.

Recommendation: If EITI organizes a more formal accompaniment process of civil society NGOs who are participating in the implementation process, then the political and technical barriers they face may be reduced and their participation may be increased.

C. OVER-ARCHING OBSERVATIONS

1. EITI was designed for the oil sector

Every person interviewed with knowledge of the history of EITI made the point that the EITI was really focused on the oil sector, with the mining sector added more as an afterthought. The reason most often given is that the amount of revenue generated by the oil sector dwarfs that of the mining sector, while revenue from the mining sector rarely exceeds 10% of a country's total revenue. Many observers also pointed out that some of the most egregious abuses of extractive revenues were found in oil producing countries.

The prevailing view of people interviewed is that some more focused treatment of the mining sector within the EITI process is required in order to take into account the particular nature of the industry and its own evolution.

2. EITI implementation in mining sector is not proceeding very well

This was the overwhelming observation of **field representatives** from civil society groups, companies, host country governments, mining company personnel and even some institutional personnel from international organizations.

Personnel at institutions at a centralized level expressed the view that implementation in the mining sector was proceeding at least as well as in the oil and gas sector. That may be; the structure of this report did not permit us to make extensive comparisons to the oil and gas sector. However, on the ground, the perception of participants is that (to paraphrase the quote from the title page to this report) “while EITI is not completely non-existent, it is tending towards irrelevancy” in the mining sector.

3. EITI is a useful entry point to the broader issue of good governance

There were a great many questions raised about the relevance of EITI to the mining industry, where the issue is not so much one of revenue transparency as it is how the revenues generated in the mining sector are contributing to broader societal well-being (or sustainable development, as it is sometimes referred to in this report) It was agreed that where governments were reluctant to address the broader goal of good governance at all, then EITI could be a useful entry point to this theme. However, everyone agreed that the overall importance of EITI should not be overestimated **for the mining sector**.

4. Implementing EITI is a question of political will

Interestingly enough, there was one point of unanimity regarding EITI and its implementation challenges, and that was that the main problem in achieving greater revenue transparency around extractive flows was more one of a lack of political will, rather than any technical challenges. We can only concur with this view, and have tried to focus a number of suggested actions on heightened approaches to overcome that issue, including a greater mobilization of political, financial and human resources and more coordinated and strategic approaches as to how those are used.

D. RELEVANT ISSUES FOR THE MINING SECTOR

This section summarizes findings from our interviews that distinguish the mining sector from the oil and gas sector. For some, it will be a first time seeing key differences laid out in this manner. We hope that they find it useful. For others, this will be a repetition of what they already know. From this latter group, we ask their patience as we present these observations. We believed this to be a necessary step for creating a shared understanding for the context in which the mining sector finds itself at the present time. Movement forward obviously depends on sharing this common understanding of the sector.

1. Revenue transparency is not the major issue; contributing to sustainable development is

Every single person interviewed that had had some direct experience working with, or in, the mining sector, including host government officials, civil society representatives, home government personnel and personnel of international institutions, stated this point in some form or another. Mining company representatives also strongly reiterated this point. For example, in Peru, approximately US\$100 million per year from the mining sector is paid to local and regional governments. People know this and find the information reasonably reliable. Of more interest to them is how this money is being spent.

Mining's crisis and revelation on the road to Damascus came over six years ago when it realized it was losing its social licence to explore for, and exploit, minerals. Its response was the Mining, Minerals and Sustainable Development (MMSD), a global research and consultation process which was intended to redefine mining by taking into account society's expectations for it. The overwhelming response from global civil society was that they wanted to see a greater effort on how mining can contribute to sustainable development, particularly at a local or regional level. The International Council on Mining and Metals (ICMM), with its particular focus on ensuring its member companies are contributing to sustainable development, was one outcome of the MMSD process. There has been no similar process in the oil industry.

For the people sharing this view of the mining sector's priority focus on sustainable development, then, the EITI is seen as more of a starting point than an end goal. If the issue of revenue transparency is not linked to the broader objective of looking at how the funds from mining are used to promote broader sustainable development in a particular area or country, then it is not particularly useful to the mining industry. For example, a number of people interviewed pointed out that the recently concluded Mining Supplement of the Global Reporting Initiative has a detailed protocol for all ICMM members on how they are to report on their tax revenue for each country in which they operate. This revenue transparency requirement becomes mandatory for all ICMM members by 2007. In other words, it goes beyond EITI by having individual member companies report on tax revenue by country.

This broader focus on how revenues from the mining sector are used is generally grouped under the heading of good governance, although ICMM calls it the resource endowment issue. A number of observers did state that trying to link the specifics of EITI with the broader issue of good governance might prevent some host governments from even participating in EITI.

While not unaware of the challenges of moving the issue of revenue transparency to include good governance, most observers stated that if the two issues are not joined, supporting EITI for the mining sector seems like too much effort for too little gain.

2. Revenue transparency on sub-national revenues is extremely important

For the mining industry, transparency on revenues paid to local and regional governments is extremely important. This is where social conflict is most likely to be generated and where mining companies are under the most pressure to demonstrate that they are contributing to broader societal well-being at these levels. This view was echoed very strongly by all host government, civil society and mining company representatives interviewed for this report.

Related to this issue is the need of mining companies to report on voluntary contributions which they make to societal well-being at a local or regional level. One leading gold company estimates their local contributions range upwards from a few hundred thousand dollars at a North American operation to about US\$3.5 million at one of its mines in South America, and well over US\$30 million across all of its operations worldwide. Mining companies want these revenues included in a revenue transparency initiative for their sector. At present, the option of voluntarily reporting on these payments within the EITI framework seems adequate to address this need.

3. Revenue flows from mining are significantly less than from oil and gas industry

Revenue flows from the mining sector to governments tend to be significantly smaller than for oil and gas. According to a 2005 report by the International Monetary Fund (IMF), oil and gas revenues for oil dependent economies as a percentage of total fiscal revenues average 52.7 percent, while revenue from the mining sector averages about 12.7 percent¹. One result of this is that there does not seem to be as much attention, interest or enthusiasm on the part of civil society groups for focusing on the total amount of revenue generated by the mining sector to host governments as there is for the oil and gas sector. Rather, what these groups tend to focus in on, both internationally and at a national level, is how the revenues which **are** generated by the mining sector are being used to promote sustainable benefits for the regions and countries where they are paid.

4. Mining sector more diverse in ownership and more varied in product, but easier to report on

In general, the mining sector is a more diverse sector in its ownership structure than oil and gas. For example, the top ten gold producers produce only 40% of total gold production. There are exceptions: for example commodities such as platinum and diamonds have a much more concentrated ownership structure, with the top 5% of producers producing approximately 80% of total production. Overall, though, there tend to be a greater number of

¹ IMF Report. [Guide on Resource Transparency](http://www.imf.org/external/pubs/ft/grrt/eng/060705.pdf). June 2005. Accessed via the web on March 21, 2006: <http://www.imf.org/external/pubs/ft/grrt/eng/060705.pdf>. The mining sector's average is pulled up by Botswana's high percentage of 56%. Most countries with data available have revenues of 10 percent or less.

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players in the mining sector, ranging from the majors through to relatively small, local players. And this diversity varies widely among mining countries. This diversity leads to greater complexity in building the trust necessary to implement EITI and makes the in-country implementation process more challenging.

Ironically, it was generally thought that it was easier for the international mining companies to report on their tax payments to governments, as these payments basically amount to taxes. Practices such as signature bonuses and production sharing agreements are not common in the mining industry, nor are confidentiality agreements. Some large mining companies already publicize how much they pay in tax revenue to governments in countries where they operate.

5. State-owned mining companies are unimportant players in the mining sector

There simply do not seem to be significant state-owned players in the mining sector, in contrast to what exists in the oil and gas sector. Where these actors do have some importance, (e.g. Chile with CODELCO; CVRD in Brazil; Okema in the Democratic Republic of Congo) EITI for the mining sector can demonstrate some flexibility in implementation in order to deal with them on a case-by-case basis.

6. New geography countries are not a significant factor for mining

The so-called new geography companies from countries such as India and China do not seem to be a very significant factor in the mining industry, as compared to the oil sector, so the need to “level the playing field” in the mining sector is not that great. What this means in practice is that, with a few exceptions, there does not seem to be very much reluctance at all among mining companies that were interviewed to reveal aggregated country-level tax payments.

E. OBSERVATIONS ON EITI PROCESSES AND ACTORS

EITI process and structure

1. Secretariat has inadequate ability to support in-country implementation processes

The EITI Secretariat is unable to adequately support in-country implementation process with the resources it presently has (i.e. 3-4 full-time equivalents, 2 million pounds annual budget). This is not to disparage the EITI Secretariat staff: they impressed us as competent and dedicated professionals. However, the comment, “We don’t receive any support from the Secretariat” was heard from host country government representatives and civil society representatives, and repeated by some company representatives. People in these countries clearly want more dedicated attention and accompaniment of in-country EITI processes.

Support for in-country implementation processes is left to DFID staff in the field, UK embassies or, increasingly, to World Bank personnel. However, no real provision is made for this increased work responsibility for designated staff; it is simply added on to an existing workload. It would appear that the present EITI structure is inadequate to support the in-country implementation process at a host country level.

2. Greater inter-institutional and bilateral coordination of activities is needed

Although there is clearly some inter-institutional support for the EITI process, most notably by the World Bank and some donor countries, the brunt of leadership efforts fall on DFID. And, as indicated above, DFID alone does not have the political-diplomatic, human or financial resources to provide the level of support that is needed to implement EITI across the gamut of mining countries. The absence of strong support from key G8 countries, including the US (who appears more concerned with energy security) was also cited as a weakness of the EITI process.

At the same time, the G8 and the International Monetary Fund are also implementing revenue transparency and good governance initiatives. The World Bank also supports a myriad of programs in developing countries related to good governance. It is not clear how EITI fits into the overall coordination of these efforts.

The absence of coordination with middle power mining countries, such as Australia and Canada, is also notable and was mentioned by a significant number of interviewees. It was pointed out that these countries could provide some specific technical, political and/or resource support to selected EITI initiatives in mining countries where they have a strong presence.

There also seems to be a lack of any consistent, coordinated connection with representative mining associations, such as ICMM, which could facilitate EITI implementation among international mining companies, many of whom are ICMM members. The lack of close coordination with ICMM, as the representative body of most of the largest mining countries and one that plays a crucial research, communication and coordination role for its members, cannot be underestimated as a source of weakness for EITI implementation in the mining sector.

As well, the Inter-Governmental Forum on Mining, Minerals, Metals and Sustainable Development (IFMMSD), which groups 34 mining countries from around the world, including most mining countries in Africa, Russia and some of the ex-Soviet Republic countries, would seem to offer an opportunity to improve outreach and penetration of EITI in key mining countries, particularly in Africa. The focus of the Forum is, broadly, to share information and improve governance in the mining sector so that it makes a greater contribution to socio-economic development. It has already identified revenue transparency as a priority in two of its three work streams, including transparency at a sub-national, or local, level.

In general, it appears that there is no overall, consistent strategy for coordinating EITI implementation with these key actors.

3. EITI needs to re-examine its list of priority countries in the mining sector

It is clear that the EITI process does not have sufficient resources to support in-country processes in all mineral rich countries. Prioritizing some countries over others should not undermine the EITI process but strengthen it, allowing more consistent accompaniment to in-country implementation processes by key EITI actors such as DFID and the World Bank. It should also allow EITI participants to move more rapidly up the learning curve, gaining experience from what has worked and not worked, and applying those lessons learned to other countries.

At the same time, the EITI Secretariat cannot simply turn away mining countries that express an interest in implementing the EITI; being opportunistic in taking advantage of a host country's willingness to implement EITI must also be accommodated. Resolving the issue of greater inter-institutional coordination and allocation of responsibilities and resources should help to address this issue as it arises.

Another more pragmatic issue is the question of which countries should be targets of the EITI process. According to the IMF criteria used by EITI, there are 18 countries that fall under the EITI umbrella as being mineral dependent. ICMM, on the other hand, identifies 33 countries as mining dependent, using the percentage of total export revenues derived from mining as their benchmark. Apparently, only 9 of the EITI and ICMM countries overlap. Difficulty in arriving at agreement with the major industry association in the mining sector about which countries should be targeted does not tend to lead to the generation of much support for EITI from member companies of that association. Indeed, it tends in the opposite direction, undermining the credibility and relevance of the overall EITI process for the interests of those members.

A number of people directly connected with the EITI process expressed disappointment that countries such as Chile and Botswana were not participating in EITI. The question that should be asked in such cases is: why should they?

According to the latest Transparency International “Corruptions Perception Index”² for 2005, these countries are ranked, respectively, at 21 and 32, relatively high in comparison to even some industrialized countries, such as the US (ranked 17), Japan (ranked 21) or Spain (ranked 23). In cases such as these, rather than worrying about whether these countries have signed on to or implemented EITI, it would seem to make more sense to somehow bring them into the EITI fold by, perhaps, learning what they are doing right and applying lessons in other contexts. It might even be possible to develop some “EITI companion status” for them that would allow these countries to be “EITI audited” and declared EITI compliant. This would increase the movement towards a critical mass of countries in the mining sector drawing nearer to overall compliance with the primary goal of EITI: improved revenue transparency.

Interviewees noted that some transitional countries are reluctant to join EITI since it is associated with very corrupt countries and, frankly, they do not consider themselves in that category. This image problem of what the EITI is intended to do needs to be addressed. Tying the initiative to one of supporting the broader responsible management of mineral resources (i.e. good governance) should, at least for the mining sector, lower the anxiety level of some transitional countries about associating with an initiative for “corrupt” countries.

4. Communication on EITI outside of the IAG is poor

Actors from the mining sector, who are members of EITI but not on the International Advisory Group (IAG) of the EITI, found that communication with the Secretariat was very weak. These actors wanted more direct engagement on what the Secretariat was doing and the opportunity to give input into EITI policy development and/or implementation efforts. These observers believed that such improved communication would improve the implementation efforts of EITI in the mining sector. Coordination through ICMM might offer a way to effectively manage this issue.

Host country governments

1. Host countries need more accompaniment in the EITI implementation process

In-country EITI implementation processes need more consistent support if they are to be effectively carried out. This view was repeated by all host governments, mining companies and civil society representatives involved in in-country EITI processes. As one person observed, simply the coordination aspect of an EITI process might involve mediating the political interests of the Central Bank, the Ministry of Finance, the Ministry of Mines, the Ministry of Planning, the Environment Ministry, plus potentially regional and local governments, not to

² <http://www.infoplease.com/ipa/A0781359.html> Accessed March 21, 2006.

mention building trust among companies and civil society representatives. This is a challenging political task in and of itself to balance all of these interests, not to mention the technical aspects involved in gathering and reporting on the data. Such a coordination effort would be a daunting challenge for any national government, let alone one which is also struggling with a myriad of challenges as it moves along a complex development path.

The objection was raised that EITI is not set up to provide this kind of intensive support. Regardless, the fact remains that if there is not more continuous support, or accompaniment, to in-country EITI processes, then they will continue to flounder and fail.

It was suggested by one person that mining companies should assume more responsibility for leading an EITI implementation process. This was roundly rejected by mining company representatives, who repeated the point that EITI is a government-to-government initiative and companies should not be expected to take the lead on implementing it. At the same time, all mining company representatives interviewed for this report stated that they already had the necessary information for reporting on their tax payments to governments and becoming compliant with EITI requirements would not be onerous. They simply did not want to lead the process.

Regardless of who takes the lead in accompanying an in-country EITI process, the lack of continuous support or accompaniment must be addressed in a more systematic and coherent way if in-country implementation processes are to succeed.

2. EITI is an imposition from the North

The perception that the EITI is another imposition of the North on the South was repeated by a significant number of people interviewed, particularly with respect to African countries. This was given as the reason why some mining countries were not participating (e.g. South Africa, Botswana, and Chile)

While not commenting on the validity of this perception, it is clear that if there are not some measures taken to generate support and buy-in from Southern countries, then EITI will continue to flounder in a significant number of transitional countries.

3. Lack of incentives and/or consequences for countries who do not implement EITI

It was suggested that tying EITI implementation to IMF or World Bank loans or grants for development or balance of payments programs might be something that would spur implementation in target countries. Other observers suggested that conditioning bilateral lending might also offer a further incentive to implement EITI. One observer pointed out that the IMF and the World Bank are already conditioning support to certain countries based on their progress in implementing good governance procedures, including some related to improved overall revenue transparency, if not specifically to implementing EITI. Other interviewees pointed out the political sensitivities of such conditionality.

Regardless of what one might think of these ideas, the fact remains that there do not appear to be sufficient incentives for host countries to implement EITI as a stand alone initiative.

Conditionality should at least be considered as a more integral tool to encourage mineral dependent countries to improve revenue transparency and good governance.

International mining companies

1. The mining industry is not actively engaged in implementing EITI

Despite the endorsement of the ICMM for the EITI process (which implies that ICMM members will implement EITI), most of its members do not see a compelling business case for supporting EITI and so are not actively working to implement it in the countries where they work. For some, the issue is a pragmatic one: the vast majority of their assets are in countries where revenue transparency is not a major issue. For others, their home governments are not supporting it so there does not seem to be any urgency in them supporting it. Generally, however, mining companies seem to see more benefit in supporting the revenue transparency initiatives of the ICMM itself, which do not depend on the support of individual host governments and which are more explicitly linked to the broader issue of contributing to sustainable development, than in supporting the EITI.

For example, companies interviewed for this report believe they are already doing sufficient work on revenue transparency through their membership in ICMM and the new GRI Mining Supplement which requires, by 2007, mandatory reporting of all taxes paid to government in each of the countries where they operate. (NB. This requirement actually goes beyond EITI, requiring as it does individual company reporting on all in-country tax payments)

Related to this lack of generalized industry support is the view that the EITI is a UK-driven initiative and that sufficient effort was not taken at the beginning to build support among other governments (or companies, for that matter), both in the North (Australia and Canada were most often mentioned) and in the South (with South Africa, Chile and Botswana being prominent here). Consequently, many companies or governments who might be potential allies or targets of the EITI process either do not participate in it or simply give it tepid support.

Most companies can easily track the government payments which are the target of EITI and many already make this information public for all countries where they operate. Mining companies interviewed for this report seem to be quite willing to publish this information should an EITI process be implemented in a particular country.

National mining companies

1. Nationally-owned, private companies are not a priority

The requirement that private companies in a host country participate in the EITI process can be problematic. If the initiative is restricted to reporting on what these companies already pay in taxes to governments, then EITI compliance should not be a problem, as this information is already centrally recorded in most countries. However, one report commissioned on a South American country indicated that nationally-owned private companies were not interested in participating in EITI precisely because tax evasion was so widespread. This can present a significant problem unless it is determined that these revenues are not material for reporting on, as per the definition of materiality for that country.

On the other hand, while nationally-owned mining companies may be small in number or size, they can be very influential politically, and can either contribute to, or impede, the implementation of a revenue transparency initiative such as EITI. Some flexibility in implementing EITI would seem to be desirable in certain cases. Where nationally-owned, private companies represent an important part of the mining industry, then special efforts to include them in an EITI process would need to be taken. If these companies are not significant, then perhaps the return on the effort makes it less important that they be included simply to comply with EITI rules. After all, the overall objective of EITI is improved revenue transparency and, ultimately better governance; the goal is not to make countries perfectly EITI compliant.

Investment industry

1. Investment industry not interested in EITI or revenue transparency

The investment community was identified as a potentially important actor in moving forward EITI implementation, influencing as it does the direction of investment flows to certain industrial sectors and/or countries. However, those who had some direct knowledge of the industry agreed that the investment community does not take the issue of revenue transparency into account when it is carrying out its investment decisions with the exception of certain socially responsible investors such as Insight Investment.

Civil society

1. NGOs are not that interested in revenue transparency in the mining sector

It is perhaps ironic that the mining industry, or at least those companies who are members of ICMM, is moving towards more complete revenue transparency and yet cannot find an audience among NGOs to engage with on this issue. At an international level, the NGOs that work on mining issues (some branches of the Oxfam family, Friends of the Earth, EarthWatch, World Wildlife Fund Australia, Mining Watch Canada, Mineral Policy Institute of Australia and a few others) are focused on issues around environmental and social impacts, community consent, and Indigenous rights, rather than how much in revenues are being paid by the mining sector to governments. Of the international NGOs on the International Advisory Group, none has a focus or history of experience in the mining sector.

This is also true at a national level. It was reported in interviews that most host country NGOs focused on the mining industry simply do not prioritize revenue transparency. They are more concerned with the environmental and social impacts a mine has in a particular region. Again, this is tied more to the issue of good governance in the mining sector than revenue transparency *per se*: that is, how revenues from mining are being used, or how mining is being conducted, to promote broader societal well-being.

2. Inability of civil society to participate in in-country processes

It was also reported that civil society representatives need a much greater level of support, political, technical and financial in order to be able to understand the issues related to revenue flows and, ultimately, the uses to which these revenues are put. In one case cited by a civil society representative, despite declared availability of funds for the purpose of being able to

participate in an in-country EITI process, this support was not forthcoming, for whatever reason.

Another complaint was that host governments were not proactive about including those civil society groups that had expressed interest in participating in an EITI process. This is more a political issue. Again, a more intensive accompaniment process by key implementers of EITI, whether DFID, the World Bank or some other external actor, might assist in addressing this issue.

F. ACTIONS TO BE TAKEN

A series of suggestions surfaced during our interviews. We have culled the suggestions to focus on addressing the barriers specific to the mining industry and promoting stakeholder participation.

EITI Structure and Implementation

1. Customize EITI implementation to better address challenges of mining industry

The present structure of EITI is not conducive to promoting acceptance of the initiative by either the mining industry or mineral dependent countries. It is suggested that a **mining sub-group** be formed that would allow a more flexible adaptation of the EITI and related initiatives to the reality of the mining sector, always maintaining adherence to the core principles of EITI, of course. Some key adaptations that are necessary if EITI is to be more relevant to the mining sector are: the need to address the issue of how revenues from the mining sector are used; the building of better and broader governance capacity at all levels of government; and working to define sub-national revenue flows.

Among the most immediate benefits of such a sub-group would be the possibility of integrating actors from the mining sector who have an interest in moving forward the issue of revenue transparency and good governance. At a minimum, this must include the ICMM, but might also include the IFMMSD, more mining-focused international NGOs, an increased number of mining companies perhaps, and so on.

Such a group would also allow for the incorporation of representatives from key mining countries from the South who would then be in a position to lead in their respective geographic areas on the EITI/revenue transparency initiative and, equally as important, would break down the barrier of EITI being perceived as another imposition of the North on the South. Such a mining sub-group might also allow the incorporation of middle-power mining countries such as Australia or Canada, who could, in turn, bring some resources, technical expertise and political weight to the EITI and good governance issue in particular areas or countries of the world.

Overall political coordination would need to stay with the EITI Secretariat. And over-all, on-the-ground implementation might increasingly be brought under the umbrella of the World Bank. But the creation of a mining focused sub-group should facilitate bringing together a greater number of relevant mining sector actors who can then formally coordinate the allocation of roles and resources to further EITI and good governance implementation in mineral rich countries.

2. EITI must be linked to the broader good governance agenda

EITI is without equal as a “brand” at a global level for greater revenue transparency in extractive countries. It has raised awareness around the issue, it has helped to galvanize political support for it, and it continues to be of particular use as a starting, or entry, point in those countries (mostly oil and gas dependent) where even putting the issue of revenue transparency on the table is a challenge. It is limited, however, in how far it can go.

Overall, there is a lack of clarity about where EITI fits on the continuum of good governance initiatives of the IMF, the World Bank and even the G8, to mention the ones most often cited by interviewees. This is a sensitive point: among certain functionaries involved with EITI, we detected a heightened level of sensitivity around any suggestion that EITI was anything but successful; with a few rough edges to be sure, but ultimately an initiative that has been successful. That is a view that is not shared by people in the field and even some people interviewed at central levels.

In particular, the mining sector is moving much more quickly than EITI in linking the quantity of revenues paid to governments to how those revenues are being used. Without minimizing the challenges in any way, the EITI risks losing further relevance for the mining industry if it does not support these efforts in the mining sector to link EITI with the broader good governance issue.

3. Develop a more engaged approach to in-country implementation

One person used the term “accompaniment” for what is needed and that term seems appropriate, implying as it does a longer-term, more consistent and a generally more engaged support throughout the entire in-country EITI process. This accompaniment might include such things as: a more hands-on, professional support for the political facilitation required to implement EITI effectively in host countries, including the implementation of a variety of trust-building activities; the provision of more technical support to the various government levels of the host country to implement EITI, including down to regional and/or local levels; legal advice should that aspect be raised; helping to find innovative ways to address the need to know of civil society; and so on.

It is clear, though, that simply handing a country a guidebook on EITI is nowhere near sufficient for achieving the desired implementation. Although not without difficulty, this recommendation should be much easier to implement if the previous recommendation regarding a greater overall, formal coordination of key actors from the mining sector, their roles and the use of resources, is followed.

Mining industry

1. Incorporate key mining actors more formally into the process

The international mining companies could do much more to ensure that EITI is successfully advanced in key mineral dependent countries. At the same time, they must be heard about issues important for their sector if EITI is to maintain some relevance for them.

First and foremost is the incorporation of ICMM into the EITI process in a more formal way. The large global companies very effectively organized themselves into this representative body called ICMM a few years ago because they shared a common vision about where they wanted to take the mining industry: towards a sector that had more of a sustainable impact in the areas where it operated. ICMM is set up to serve a representative role for these companies in a way that industry associations from the oil and gas sector do not appear to be. At the same time, incorporating ICMM into the EITI process should help to facilitate greater support from all of its members for the process. It should be noted that ICMM counts among its members key

national mining associations who potentially can play an important role in EITI and good governance implementation.

Linking EITI with the broader issue of the effective use of mineral revenue is another key aspect for the industry that needs to be taken into account. Again, it would seem that the explicit focus of ICMM's 'Resource Endowment' project on how mining can contribute to more sustainable impacts in mineral dependent societies offers a potential wealth of learning that, at present, is not integrated in any formal way into EITI. Having some flexibility for incorporating other key actors from the mining sector (mid-level mining countries such as Australia, Canada or even South Africa; the IFMMSD; more mining-focused groups from civil society; and so on) is another issue that is important for the industry.

It should be pointed out that all of the above points could be adequately addressed through the creation of a mining sub-group that had some flexibility in how it approached the issue of furthering EITI, revenue transparency and/or good governance.

2. Large mining companies can work to build in-country support for EITI

On a more pragmatic level, ICMM members could begin to put some more muscle behind EITI, carrying out presentations on it, piloting some work on it, holding forums on its challenges and how were they were addressed in other jurisdictions, and so on. The larger companies could even assist some of the smaller national companies to build up their capacity to fill out EITI templates. They might even serve as a bridge to facilitate the incorporation of national civil society actors in the process.

Perhaps most importantly, ICMM members could exercise greater leadership in particular countries to involve both members and non-members to support EITI, most particularly national mining associations and key national mining companies. In a number of countries, these are very significant political actors, even as their percentage of mining production is relatively small. Bringing them inside the tent is an important accomplishment and the larger companies could be more deliberate about using their influence to attempt this, as BP did in Azerbaijan with respect to the oil and gas sector.

Multilaterals

1. More effective coordination on roles and resources

A more formalized coordination of key multilateral actors with the EITI process should allow a more efficient allocation of roles and a more effective utilization of existing resources, including political, human and financial. The World Bank is critical here. There may be other actors, such as the IMF, regional development banks or the various United Nations agencies that can bring something specific to bear to further EITI and broader efforts of good governance. But a more deliberate and formal strategic approach is needed for this to be effective.

2. Formal integration of EITI into overall governance initiatives

This seems to be happening in a *de facto* way at the Bank level but a more formal discussion and strategizing about how the entry point of EITI can lead into existing programs on good

governance of the multilaterals would seem to offer greater political opportunities for moving the agenda forward, as well as efficiencies in implementation.

Investment industry

1. Tie EITI, revenue transparency and good governance to investment risk profiles

The investment industry for this paper means the investment banks and the stock exchanges that are active on mining issues. This sector was prominently mentioned as potentially hugely influential, although there did not seem to be a plethora of ideas of what might be done in this area.

One suggestion is for the EITI Secretariat to carry out a strategic educational/advocacy effort on incorporating EITI, revenue transparency and/or good governance issues into risk profiles for investment purposes. This would include the investment banks, many of whom are already signatories to the Equator Principles, as well as the Toronto, London, New York, South African and Australian stock exchanges, which are the principle venues for the raising of mining investment funds. ICMM members might even accompany the Secretariat in this effort. Again, however, the development of a strategy around this issue would seem to be prudent before any actions are taken.

Civil society

1. Increase external accompaniment of in-country EITI process

There are political and technical problems that are keeping civil society actors from effectively participating in EITI in-country processes. A more deliberate accompaniment by key external actors in the style described above should help to address these needs.

OSI has become an important means of providing capacity-building to NGOs. Greater coordination with their plans for training could provide significant technical assistance and/or resources for ensuring civil society involvement in selected countries. National NGOs emphasized that training adapted to local circumstances and knowledge is crucial for successful knowledge transfer and skills development.

2. Find alternative means to involve civil society as interim measure

There appears to be a demonstrated lack of interest on the part of civil society groups to participate in the EITI process as a stand-alone initiative. Where such a situation exists, perhaps other means could be identified to address the need of civil society to know about revenue flows in order to hold the appropriate government actors accountable, while also raising awareness in civil society of the need to take a more active interest in these issues. Such means might include: targeted educational campaigns to key sectors; forums and conferences on EITI, revenue transparency and good governance; publicity in mass media around payments by the industry; and so on. It should be stressed that these would be interim measures until such time as a suitable organization from civil society came forward or was identified who could participate in an EITI in-country process.

One person pointed out that if civil society groups do not participate in the process, then it cannot be EITI; the rules are very strict in this regard. Perhaps the interim nature of such an

arrangement as outlined above, as well as its ‘exceptional’ nature, might allow for some flexibility in certain cases.

Home governments

Due to our limited scope and time, our stakeholder interviews did not include many representatives from home governments, other than DFID and Canada. For this reason, we are reluctant to provide specific actions for home governments to take. Also, we do not doubt that significant efforts have already been expended in this area to further support from key countries, such as those in the G8.

We will note that incorporating certain governments (the US most notably) into the EITI/good governance agenda in even certain countries does offer, potentially, significant upside and is probably worth developing a strategy around. For example, host government representatives interviewed stated that conditioning bilateral aid to EITI/good governance initiatives would truly bring this issue to the attention of their government leaders.

APPENDIX 1

List of Persons Interviewed

Name	Organisation/country
Edward Bickham, Executive VP, External Affairs	Anglo American
Eduardo Rubio, Director, Minera Quellaveco	Anglo-American
Steve Lenahan, Executive Officer Corporate Affairs	AngloGold Ashanti
Ian Wood, VP Sustainable Development and Community Relations	BHPBilliton
Aydin M Gashimov, Government and community relations manager Baku	BP
Khatira M Iskender, Government and community relations manager Baku	BP
Stuart Brooks, Policy Coordinator	Chevron Texaco
Dr. Beatriz Boza, Director	Ciudadanos al Dia, Civil society sector in Peru
Raymond Kabongo, Conseiller du Ministre du Plan and EITI government coordinator	Democratic Republic of Congo
Omar Bargawi, DRC - DFID Country Desk	DFID
Ben Mellor, Team Leader, EITI, Department for International Development, U.K. Government	EITI Secretariat
Roger Ansongwine, Director of Finance and Admin of the Ministry of Finance and Economic Planning	Ghana
Arvind Ganeshan, Director, Business and Human Rights	Human Rights Watch
Gary Nash, Forum Chair and Assistant Deputy Minister, Natural Resources Canada	IFMMSD
Rachel Crossley, Director Investor Responsibility	Insight Investment
Rory Sullivan, Investor Responsibility	Insight Investment
Helen MacDonald, Director, Community Relations & Social Development	Newmont Mining Corporation

Julie McCarthy, Acting Director, Revenue Watch	Open Society Institute
Carlos Garaycochea, Assessor to the Minister of Energy and Mines and EITI government coordinator	Peru
Jim Cooney, VP International Government Affairs	Placer Dome
Kathryn McPhail, Principal	Resource Endowment Project, ICMM
Shaun Stewart, International & Government Affairs Advisor	Rio Tinto PLC
Olle Å–stensson, Chief - Information and Risk Management Section Commodities Branc, Division on International Trade and Commodities	UNCTAD
Craig Andrews, Principal Mining Specialist	World Bank Group
Sefton Darby, EITI Team, Department for International Development, U.K. Government	World Bank Group
Michael Levitsky, Senior Economist, Oil and Gas,	World Bank Group