

Dialogue and Transparency in the Extractive Sector

Launching EITI Implementation in Germany



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Foreword Keeping track of capital streams

How revenues from resource extraction can be mobilised successfully to fund development

By Clare Short* and Uwe Beckmeyer*



Next year marks the end of the implementation period for the Millennium Development Goals (MDGs) adopted by the United Nations in 2000. Much has been achieved in the past 15 years; nevertheless, the huge task of poverty reduction remains incomplete and there are new targets to be met, such as boosting sustainable economic growth and creating more jobs for a growing world population.

Many of the problems persist in countries where one would least expect them: countries with rich reserves of oil, gas and minerals. Paradoxically, in many of these countries, the revenues from resource extraction have not boosted development; instead, they have weakened the economy, social cohesion and political institutions. The majority of people in these countries still live in extreme poverty, large amounts of capital are transferred abroad, and brutal conflicts over oilfields and mines will cripple the countries' development for decades to come. Corruption and complicity between government officials and economic and financial sector stakeholders, combined with an absence of transparency, legitimate democratic scrutiny and accountability, create ideal conditions for the plundering of resources. In short, many of these countries have failed either to capitalise sufficiently on their resources or to use their resource wealth to benefit their citizens.

Keeping track of capital streams

In the 1990s, non-governmental organisations had already put this issue on the development policy agenda. They called for more transparency in relation to revenue from resource extraction, urging companies to 'publish what you pay'. In response, producer and consumer countries, oil and mining companies and financial sector organisations met in 2003 and agreed 12 transparency standards for revenue from the extractive sector. Thus, the Extractive Industries Transparency Initiative (EITI) was born, with the objective of generating comprehensible, comprehensive and credible information to facilitate public debate about revenues and their use in the member countries.

In EITI participating countries, extractive companies must publish their payments to the relevant countries in the annual EITI Report. Resource-producing countries wishing to join the initiative are not only required to disclose their revenues, such as taxes, fees and licences, from extractive operations but since 2013 must also publish details of how the revenue is allocated in the regions. Membership can be suspended at any time if the rules are infringed. This has already happened in the cases of the Democratic Republic of the Congo, Mauritania, Sierra Leone and Yemen. As these countries have since made significant changes, they have been readmitted.

A total of 48 countries and more than 90 oil, gas and mining corporations have now voluntarily signed up to the EITI Transparency Standards for the extractive sector. To coincide with the German Presidency of the G7 in the coming year, the German government will apply to the EITI Board in Oslo for membership. In preparation for its official application as EITI Candidate, the first German EITI Transparency Summit took place in Berlin at the end of November and was attended by representatives from government, companies, industry associations, trade unions, non-governmental organisations and research institutes. The German multi-stakeholder group (D-EITI) will consist of appointees from this group of organisations.

By signing up to EITI, Germany – a major industrial country with substantial resource imports – is demonstrating its willingness to assume responsibility and add its weight to joint efforts to combat corruption in the international extractive sector. Germany is thus sending a message to major resource-producing countries such as South Africa, Brazil and India, and to China and Russia. EITI membership will significantly enhance the credibility of Germany, which has supported the EITI politically and financially since it was established.

Keeping track of capital streams

A country's natural resources belong to its citizens. It is this belief which inspired the EITI to begin its work more than 10 years ago. For many people, the idea that governments and companies in the often complex international extractive sector would one day open their books to scrutiny seemed unlikely at first. However, the multi-stakeholder approach has succeeded in committing a range of stakeholder groups to transparency and common standards. This paves the way for capital streams to be made public and thus become more transparent – an essential prerequisite in empowering citizens and civil society organisations to demand that their governments account for the use of the funds. In this way, resources can cease to be a cause of conflict and become drivers of development.

* **Clare Short** is Chair of the Board of the Extractive Industries Transparency Initiative (EITI). She was Secretary of State for International Development in Prime Minister Tony Blair's cabinet from 1997 to 2003.

* **Uwe Beckmeyer** is Parliamentary State Secretary at the German Federal Ministry for Economic Affairs and Energy and the Special Federal Government Commissioner for EITI Implementation in Germany.

Introduction

The Extractive Industries Transparency Initiative (EITI) is a global initiative to promote financial transparency and accountability. Its overarching goal is to publish comprehensible, comprehensive and credible information in order to facilitate public debate about revenues from resource extraction and the way such funds are used.

Extractive companies subject to the appropriate national EITI transparency requirements disclose their tax payments and royalties to the government, which in turn must publish its corresponding revenues from extractive operations. As a rule, revenue streams include income from mining minerals and metals and, increasingly, from other sectors such as oil, gas, forestry and agriculture.

The EITI is being implemented by 48 countries across the world and is supported by 17 governments and the European Commission. As well as developing countries, G8/G20 and OECD members are increasingly working towards national EITI implementation. To date, the EITI has led to the disclosure of government revenues in excess of USD 1,500 billion from the extractive sector. More than 90 mining, oil and gas companies and over 90 investment and pension funds with a total value of over USD 19 trillion support the EITI. The governments of resource-producing countries commit voluntarily to the initiative, which is implemented jointly with the extractive and

financial sectors and civil society stakeholders. The vehicle for this is an inclusive three-group model comprising government, industry and civil society: a multi-stakeholder process. The multi-stakeholder group oversees and has joint responsibility for EITI implementation.

Since the EITI was established in 2003, Germany has supported it both politically and financially in some 20 developing countries and emerging economies. On 2 July 2014, the German federal cabinet took the decision to submit an official application for Germany to become an EITI Candidate. The following four conditions must be met: (i) a public statement of the government's intention to implement the EITI; (ii) appointment of a high-ranking individual as Special Commissioner; (iii) a commitment to work with companies and civil society and establish a multi-stakeholder group; and (iv) submission of a work plan for EITI implementation. Germany has already fulfilled the first three of these requirements. The present publication documents the preliminaries for EITI implementation in Germany and reflects the diverse and challenging debate about its implementation.

D-EITI Transparency Summit

On 26 November 2014, in preparation for Germany's EITI sign-up, the D-EITI Transparency Summit was held in Berlin, with more than 110 delegates from politics, industry and civil society in attendance. They joined members of the EITI Board and other international guests to discuss the opportunities and prospects arising from EITI implementation in Germany (D-EITI).

In addition to an address by Clare Short, the Chair of the EITI Board and former UK Secretary of State for International Development, the delegates heard contributions from speakers including Uwe Beckmeyer, Parliamentary State Secretary and the Special Federal Government Commissioner for EITI Implementation in Germany, Professor Peter Eigen, the driving force behind EITI and its first Chair, and other government, civil society and private sector stakeholders. The aim of the conference was to promote discussion of expectations and the specific organisation of D-EITI. The delegates were very keen to move the process forward in Germany.

Dr Thomas Gäckle, Head of Directorate IV B Raw Materials Policy at the Federal Ministry for Economic Affairs and Energy (BMWi), opened the Transparency Summit. He expressed particular pleasure at the wide range of delegates, both national and international, and at the amount of interest in this important issue. Dr Gäckle described the Transparency Summit as a good opportunity to discuss the implementation of the initiative in detail, to reappraise experience in other countries and to identify the challenges for future development.

Part of the conference was given over to preliminary discussions, held in public, by the multi-stakeholder group (MSG) with senior figures from government, industry and civil society. The group's task is to determine the scope of the EITI for Germany and to manage and monitor the implementation of the initiative in the country.

Keynote speech

Clare Short, Chair of the EITI Board



Clare Short was elected Chair of the EITI Board in 2011 as the successor to Professor Peter Eigen. She was a Member of the House of Commons from 1983 to 2010 and was the UK Secretary of State for International Development from 1997 to 2003, the first person to hold this position. Since leaving politics, Clare Short has worked with various non-governmental organisations, including International Lawyers for Africa (ILFA) and Africa Humanitarian Action (AHA). She is regarded as one of the principal advocates of greater transparency in the extractive sector.

Clare Short began by emphasising the extreme complexity of governance and monitoring in the extractive sector. Equitable distribution of natural resources has sparked political disputes and conflicts since the Industrial Revolution. Every country has also undergone its own development history and therefore faces very specific challenges.

A crucial step towards an international initiative was the recognition that all stakeholder groups must be involved equally. Transparency cannot work unilaterally, and one-sided initiatives can have negative effects. For example, one international oil company decided to publish its payments to the Angolan government. Angola reacted to this unilateral decision by threatening to withdraw the company's concessions.

Ms Short went on to say that governments, companies and civil society all over the world have a common interest in, but different motives for, promoting transparency in the extractive sector. Companies are keen to improve the reputation of a sector that is increasingly the focus of public criticism. Governments of resource-rich countries hope that greater transparency will boost foreign investment in the sector. International civil society supports and demands transparency, as natural resources should be managed in a way which benefits the people.

This common interest formed the basis for the efforts to operationalise and institutionalise transparency. In 2002, the first EITI Board was formed, chaired by Professor Peter Eigen, with representatives from the three stakeholder

Keynote speech

groups: government, civil society and the private sector. Thus, the EITI was born.

In Ms Short's view, two fundamental changes occurred when this process began: firstly, the notion of transparency took hold, so that in the mining sector it is now considered the norm. Secondly, all three stakeholder groups now communicate in one forum, which means that prejudices are overcome and all participants have access to the same information.

In conclusion, with a view to the future and Germany's accession, Clare Short outlined what she sees as the greatest challenge in implementing the EITI: that the annual report is not the end in itself. Each country must define for itself what advantages the EITI offers so that it can structure national implementation accordingly. For example, other sectors besides mining, such as forestry and fishing, could be included in the reporting if they have a significant economic and social role. A minimum standard of governance is necessary for EITI membership and, in addition, each individual

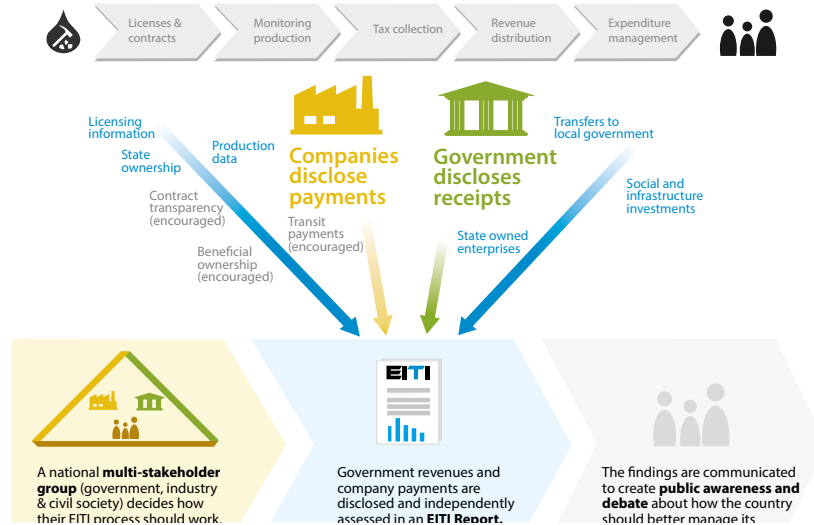


country is called upon to undertake national implementation. The OECD countries in particular must ask themselves what they expect to gain from EITI sign-up – beyond sending a message to the rest of the world.

Don't just produce an expensive annual report and fly in an international auditor to look at it ... Instead, make your systems of government more open, more transparent and more robust. Then the facts and evidence in your report can be commented on and explained."

Clare Short

The EITI Standard



EITI reporting: The minimum requirements for member countries laid down in the EITI Standard include the production of comprehensive annual EITI Reports, with full disclosure of all government revenues from the extractive sector and all substantial payments to the government from oil, gas and mining companies. As well as these payments, the reports must contain information on the national extractive industries (e.g. licensing and conditions of resource extraction). In the interests of transparency, they must be comprehensible, publicly accessible and actively promoted, thus contributing to public debate.

The EITI Standard and further information can be found on the D-EITI website: www.d-eiti.org

D-EITI: New opportunities for dialogue and transparency in Germany's extractive sector



Uwe Beckmeyer, Parliamentary State Secretary at the German Ministry for Economic Affairs and Energy (BMWi) and Special Federal Government Commissioner for EITI Implementation in Germany.

Uwe Beckmeyer began by pointing out that Germany has already supported the EITI for more than 10 years and has long promoted participation in the EITI on the part of major resource countries such as Brazil, China, India and South Africa. Germany's EITI sign-up will boost the credibility of Germany's engagement on behalf of the initiative. A country can only convince others of the importance of the EITI Standard if it is prepared to conform to the Standard itself. By signing up, Germany is putting itself at the forefront of the countries that support EITI and sharing the responsibility for international efforts to combat corruption in resource-rich countries. It is also giving unequivocal approval to greater transparency and accountability in the extractive sector. The great idea behind the supposedly difficult issue of resource transparency is this: if there's transparency, there's no scope for corruption. That is why Germany's EITI accession sends out a 'strong message'.



Uwe Beckmeyer became Parliamentary State Secretary at the German Ministry for Economic Affairs and Energy in 2013 after many years as a member of the Bremen Senate. In addition to his role as the German Government's Coordinator for Maritime Policy, he has held the post of Special Federal Government Commissioner for EITI Implementation in Germany since July 2014.

D-EITI: new opportunities for dialogue and transparency in Germany's extractive sector



Multi-Stakeholder-Group (MSG): In accordance with the EITI Standard, effective monitoring of national EITI implementation must be undertaken by a multi-stakeholder group, which was established by the German government in April 2015 with equal representation. The first formal meeting of the MSG was held on 10 March 2015. Each group (government/private sector/civil society) identified their representatives independently. The members will collaborate with the interest groups or stakeholders that they represent; as far as possible, all major stakeholder groups should be in the MSG. Their brief includes managing and monitoring the D-EITI, and approving action plans and reports. As a further task in preparing the application, they must establish the scope of the report (materiality threshold of payments, sectors to be included) based on the EITI Standard.

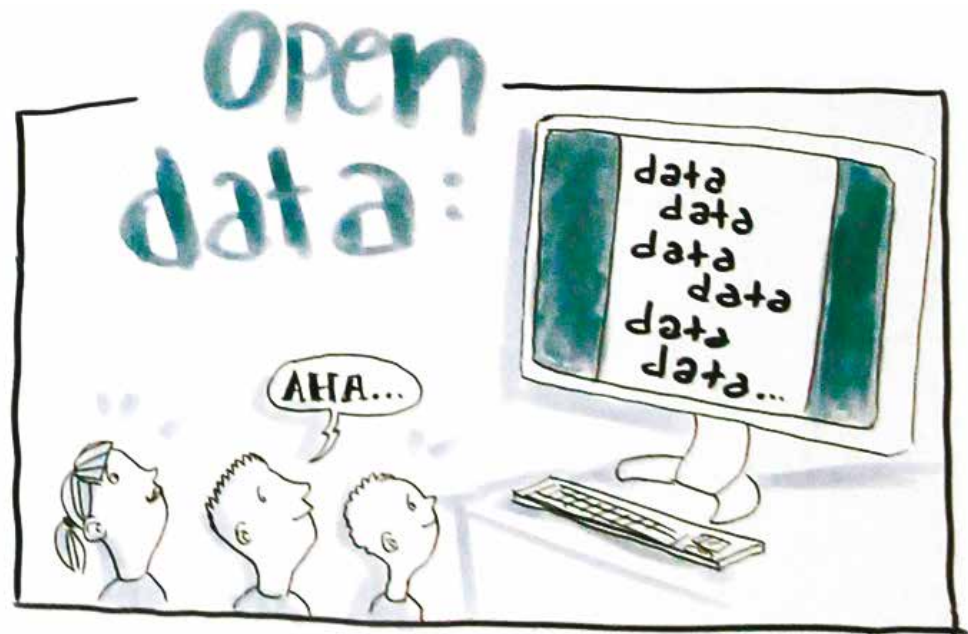
Uwe Beckmeyer went on to say that Germany can also offer convincing arguments for EITI sign-up from a national perspective. Firstly, the initiative improves the international setting in which the German extractive sector operates and competes. Secondly, it advances dialogue and transparency in its resource policy and extractive industry, which increases acceptance of resource extraction in the country.

By establishing a multi-stakeholder group, an innovative forum is created for cooperation between government, business and civil society. In addition, D-EITI makes the extractive sector a pioneer in the provision of open data in Germany. Thus D-EITI is contributing to a 'digital Germany' which benefits both its citizens and its industry, and thus underpins one of the German government's main goals.

D-EITI: new opportunities for dialogue and transparency in Germany's extractive sector

Uwe Beckmeyer added that Germany must do justice to its federal system when implementing D-EITI. Success in this venture allows Germany to be a role model for other countries and deliver innovative solutions, thus setting its own, novel priorities.

In conclusion, Uwe Beckmeyer invited those members of the multi-stakeholder group already nominated to participate in preliminary discussions. He stated his conviction that difficult energy and resource policy issues can in future only be resolved through constructive dialogue between government, civil society and the private sector.



D-EITI: new opportunities for dialogue and transparency in Germany's extractive sector

Questions to Uwe Beckmeyer and Clare Short from the floor:

How will Germany handle the EITI within its federal structure?

Uwe Beckmeyer: It will be a difficult task to do justice to the challenges of the federal system when we implement the EITI, particularly because some payments which need to be taken into account are absorbed at the lowest tier of government, namely the municipal level. Other federally organised countries such as the USA, Nigeria and Iraq are facing similar problems, and the same may apply to Australia and Mexico in the future. Germany can set an example and send out a positive signal. That is why it is especially important that the German federal states (Länder) support the EITI process.

Clare Short added that Australia's experience and its decentralised implementation of EITI may be useful.

What will Germany gain from signing up to the EITI?

Uwe Beckmeyer: Germany is committed to tackling corruption worldwide. EITI sign-up strengthens our credibility and makes Germany a role model. An important aspect is that Germany, as an industrial country and resource importer with purchasing power, can exert influence by encouraging other countries to join the EITI. However, the prerequisite is that Germany itself implements the EITI. Any advice on how to implement it in Germany is valuable. Incidentally, other industrial countries, such as the United Kingdom, are facing similar tasks.

Clare Short added that it would not be sustainable if Germany only introduced EITI out of a sense of solidarity. Effective public debates on issues such as fracking, energy system transformation and the use of scarce domestic resources are extremely important, as they lend both weight and credibility to the EITI.

Round table: expectations of D-EITI



(left to right)

Dr Stefan Mair, member of the Executive Board,
Federation of German Industries (BDI)

Prof Henning Rentz, RWE

Prof Edda Müller, Chair, Transparency
International Germany

Dr Ralf Bartels, Head of Section, IG BCE (Union of
Mining, Chemical and Energy Workers)

Friedrich Wilhelm Wagner, Mining and Energy
Department of North Rhine-Westphalia,
Arnsberg District Authority; Representative of the
mining authorities in the EITI process

The panel discussion about general expectations of D-EITI and the multi-stakeholder group's remit was chaired by Conny Czymoch.

Private sector representatives Dr Stefan Mair (BDI) and Professor Henning Rentz (RWE) emphasised that corruption is not a major problem in Germany. Even when cases of corruption come to light, Germany's rule of law ensures that they are swiftly dealt with. In addition, the EU Transparency and Accounting Directives already provide a comprehensive basis so, in the view of the private sector, the added value of D-EITI lies in strengthening the international initiative: The German industry has considerable interest in well-functioning, transparent markets. Although Germany has largely withdrawn from international mining projects, it is still dependent on imported resources for its industry. Professor Rentz drew attention to the national perspective as well. With their EITI engagement, German companies underline the fact that they adhere to international standards. EITI is also extremely important – both nationally and internationally – in creating a level playing field. However, the additional workload generated by EITI is viewed critically by the private sector, according to Professor Rentz. Companies have limited capacity to gather

Round table: expectations of D-EITI

and process more information, which is why they are calling for D-EITI to use existing data. Major corporations like RWE already have all the necessary figures, but small to medium-sized businesses cannot be expected to collect and process large amounts of additional material – a reasonable balance has to be found. The industry representatives also made it clear that the multi-stakeholder group could be a good platform for discussion of mining and energy issues, but that it should not be overburdened. For example, there is already extensive public debate about fracking, so it does not need to be addressed by the MSG.

Professor Edda Müller, Chair of Transparency International Germany, introduced the discussion by pointing out that countries with poor scores in the Corruption Perceptions Index are generally failing economically as well. In many cases, they also show a marked dependence on natural resources. As well as the international perspective connected with Germany's EITI sign-up, there is a national dimension. The importance of transparency in general is acknowledged and strengthened by D-EITI; that is why the future process is eagerly awaited.

Professor Müller went on to propose that the multi-stakeholder group be used as a platform for resolving other problems as well. Germany should learn to address difficulties and look for solutions through direct dialogue between the private sector, government and civil society. In this respect, D-EITI can help in introducing an innovative dimension in the debate. Interesting questions arise as well: Should activities be limited to the traditional extractive sector, or do we need a public debate among equals, modelled on an MSG, about energy policy as a whole? Should renewable energies and supply chains be included? Where do we stand with corporate social responsibility? How are companies meeting their responsibility for sustainability? Professor Müller expressed the hope that the entire D-EITI and the MSG could set an example for transparency in Germany and that this experience could be translated into other areas.

Round table: expectations of D-EITI



Dodd-Frank Act and the EU Transparency Directive:

As well as the voluntary EITI, legally binding reporting obligations exist for greater transparency in the extractive sector:

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) is a federal law adopted in the US in 2010. Section 1504 obliges companies engaged in the commercial development of oil, natural gas or minerals to disclose annually all worldwide payments to governments exceeding USD 100,000. This obligation applies to all companies listed on US stock exchanges.

In the EU, transparency in the extractive sector was addressed in 2013 in both the new EU Accounting Directive (2013/34/EU) and the revised EU Transparency Directive (2013/50/EU). The two directives are complementary in terms of extractive sector transparency regulations, and cover industrial logging in primary forests as well as the extractive industries referred to above. The materiality threshold is EUR 100,000. The directives differ in terms of their applicability to companies: the Accounting directive requires European companies to disclose remuneration in cash and in kind in relation to countries and projects, and includes public interest entities and European companies not listed on the stock market. The Transparency Directive, on the other hand, also applies to companies from non-member countries listed on the stock market in an EU member state.

Round table: expectations of D-EITI

Professor Müller then went on to talk about the issue of revenues, which is a key theme internationally. The disclosure of company payments to government is a focus for the EITI. Even in Germany, she said, there is a lack of transparency in tax payments. Who do companies pay their taxes to? Do they receive subsidies or tax relief in return? Therefore it should not only be the companies' payment streams to government that are disclosed; the same should apply to various forms of payment reductions for companies as well.

Dr Ralf Bartels, the representative from IG BCE (Industriegewerkschaft Bergbau, Chemie, Energie), also emphasised the importance of the EITI in Germany. Any country that makes global demands should set an example at home. However, for Dr Bartels, there was also the issue of what happens in those countries that do not comply with the EITI Standard, but where German companies operate nonetheless. Dr Bartels also saw the EITI competing with other initiatives and networks, such as international trade union cooperation and the Bettercoal Initiative. This raises the question of which goals can best be pursued by which route. Dr Bartels was certain that the EITI is not the tool for solving all the problems arising in the mining sector. However, an extension of reporting obligations may lead to greater transparency and also help to break down prejudices between stakeholders in the extractive sector – both of which he regarded as major challenges.



Round table: expectations of D-EITI

Friedrich Wilhelm Wagner, Head of North Rhine-Westphalia's Mining and Energy Department in Arnsberg District Authority (which has responsibility for the entire state) and the representative of the mining authorities in the D-EITI process, explained the authorities' role. They are responsible for ensuring resources provision for Germany, as set out in the Federal Mining Act. The federal states' mining authorities collect the royalties due from resource extraction and therefore play a key part in the disclosure of capital streams in the EITI context. The D-EITI process has three main components from the perspective of the min-

ing authority in North Rhine-Westphalia. Firstly, there is the civil society aspect; this concerns environmental issues and transparency in particular. Secondly, there is the resource strategy component: as an industrial country, Germany is dependent on imported resources and must secure its supply, for example through strategic resource partnerships. Thirdly, Mr Wagner cited the economic component, since Germany is a world leader in many technological fields, such as mechanical engineering and mine safety. Germany can thus help to ensure clean and environmentally sound resource extraction across the globe.



D-EITI and the MSG in particular can lead to a higher standard of communication between government, administration, the private sector and civil society. However, Mr Wagner opposed transferring the debates conducted in anti-mining citizens' campaign groups to the D-EITI – this would not ultimately benefit the EITI process.

Round table: expectations of D-EITI

The MSG as a forum was expressly welcomed by all participants; however, there was disagreement over the focus of its work. What issues should be discussed in the MSG? Are supply chains, energy system transformation and fracking relevant here? How can D-EITI be implemented innovatively at the national level? These discussions showed, on the one hand, that the MSG certainly cannot solve all the problems that arise; a clear thematic focus is crucial, at least in Germany's EITI accession phase. On the other hand, there were calls for

the MSG to be able to address all issues objectively and openly. To sum up: all the participants were fundamentally positive about the D-EITI and saw good prospects for constructive cooperation within the MSG.



EITI candidacy: A country planning to implement the EITI is required to undertake a number of steps before applying. When they are completed, the government – with the support of the national multi-stakeholder group – submits the EITI Candidate application. The EITI Board reviews the application and assesses whether all the sign-up steps have been completed successfully. If the EITI Board admits an EITI Candidate, it will at the same time establish deadlines for the publication of the first national EITI Report and validation of the national EITI process. The first report must be published within 18 months from the date that the country was admitted as a Candidate. EITI Candidate countries will be required to commence validation two and a half years after becoming an EITI Candidate. If validation verifies that the country has met all the requirements, the EITI Board will designate the country as EITI Compliant; it is then an EITI Member.

Round table: expectations of D-EITI

Bernd Westphal, a member of the SPD parliamentary group in the German Bundestag, commented from the floor that Parliament is in favour of D-EITI and supports the initiative. He believed that its introduction will boost confidence in resource extraction in Germany and lead to greater transparency. It is also important to inform people that Germany's economy is dependent on natural resources and on imported resources in particular. For that reason Bernd Westphal asked the group members what opportunities the EITI presents to improve the transparency of supply chains. Dr Stefan Mair replied that extensive work was already being done on this subject. However, there comes a point when companies reach their limits and have less and less influence, for example on working conditions.

A question from the floor:

How can the results of D-EITI be published in a way that is generally understood?

Professor Müller and Dr Mair view this as a key task for the multi-stakeholder group. It is not essential to explain every technical term; instead, the aim should be to raise public awareness of this important issue.

EITI and international experience

Richard Dion, country desk officer for Germany,
EITI International Secretariat



International experience and examples from countries which have already implemented the EITI provide various opportunities to structure the work of the multi-stakeholder group. One of them is the decentralised MSG model from

Madagascar: One of the main tasks of the regional MSGs is to examine the transfer of central government revenues to the regional governments. In Kyrgyzstan, there are local contact points where the stakeholders discuss EITI Reports and can thus defuse nascent conflicts. In the USA too, the majority of royalties from the mining sector are paid to the federal states. The EITI must therefore be organised appropriately. Moreover, the multi-stakeholder groups in America and the UK are leading by example by publishing all relevant MSG documents (minutes, resolutions and agendas).

Germany is able to learn from these experiences in order to avoid mistakes. However, it is not just about participating in the EITI; it also about promoting public debate about the key issues of energy and transparency. The multi-stakeholder group has a major role to play here, as equal involvement of all stakeholders enhances the credibility of the process.



Richard Dion is Regional Director for Central Asia and the Caucasus in the EITI International Secretariat and is the country desk officer responsible for Germany's EITI application. Before joining the EITI Secretariat, he worked first for the United Nations Development Programme in Kazakhstan and then for several years for Royal Dutch Shell, including in the field of revenue transparency.

The importance of D-EITI for developing countries and emerging economies



Thomas Silberhorn, Parliamentary State Secretary at the German Federal Ministry for Economic Cooperation and Development (BMZ)

Good governance is the key to economic development and the eradication of poverty, especially in resource-rich countries, where – provided there is good governance – revenues offer considerable potential for prosperity and sustainable economic development. If good governance is lacking, resource wealth can often become a 'resource curse', adversely affecting other economic sectors and depriving education and innovation of much-needed revenue. Whether the extractive sector is a curse or a blessing depends on whether institutions are competent and transparent, Thomas Silberhorn said: The extraction of natural resources currently plays a key role in the economies of some 80 countries around the world. Almost 80 per cent of these countries have a per capita income below the global average. That means that about 70 per cent of people suffering extreme poverty live in countries with a strong extractive sector – despite the fact that the natural resource deposits offer considerable potential for development in these countries.



Thomas Silberhorn has been a member of the CDU/CSU parliamentary group in the Bundestag since 2002. He became Parliamentary State Secretary at the German Federal Ministry for Economic Cooperation and Development (BMZ) in 2014. He used his address to focus on the importance of good governance for poverty reduction and economic growth in resource-rich developing countries.

The importance of D-EITI for developing countries and emerging economies



Germany's commitment to the EITI: The German Government has supported the EITI initiative since its inception and is involved in its development via the group of EITI-supporting countries in the EITI Board. Political, financial and technical support for the initiative includes:

- Supporting 20 national EITI processes to date through bilateral and regional BMZ programmes in the following countries: Afghanistan, Burundi, Central African Economic and Monetary Community (CE-MAC), Central Asia, DR Congo, Ghana, Guinea, Mali, Mauritania, Mongolia, Mozambique, and West Africa (Liberia and Sierra Leone);
- Sponsoring more than 300 'change agents' from 44 countries through training programmes for national EITI processes;
- Since 2009, organisation of the round table 'New transparency partnership in the resource sector' in a collaboration between BMZ and BMWi and the Federation of German Industries (BDI) and German companies;
- Contributing to the EITI Multi-Donor Trust Fund and EITI Secretariat;
- Providing funding of more than EUR 10 million in total.

The importance of D-EITI for developing countries and emerging economies

Thomas Silberhorn again explained the simple fundamental principle of the EITI: Government revenues and company payments are compared, which results in transparency of revenue streams. Implementing the EITI in Germany is another important step in the government's development policy. D-EITI demonstrates that Germany supports democratic accountability and good governance in the extractive sector worldwide. There is an important political message here: Germany itself is committed to the same level of transparency that is required of others.

Silberhorn made it clear that the EITI is not an asymmetrical arrangement. That would not achieve the desired objectives. It is a question of making the support, implementation and development of the initiative a common project for all countries, because development is most successful when partners work together as equals. Only in this way can the EITI really become a global standard and become truly effective.



EITI: background and outlook



Prof Eigen, EITI Founding Chair (2006-2011)

Professor Peter Eigen began by endorsing the comments made by the previous speaker, Thomas Silberhorn. He agreed that good governance, particularly in the extractive sector, is the key to development progress.

The ongoing question, however, is how it should be implemented. Here, Professor Eigen outlined the challenges facing the EITI and the factors influencing its success.

The key to the EITI's success is cooperation between its three stakeholders: government, industry and civil society. With the multi-stakeholder group (MSG) format, a means of facilitating discussion and coordination of the three stakeholders' interests has been identified. Nonetheless, there are inherent risks with this form of cooperation, not least because it is difficult to bring corporate representatives around the table with activists who campaign against their companies. In order to encourage the three different stakeholders to cooperate, the approach initially pursued by the EITI was, of necessity, modest in its ambitions, said Professor Eigen. Consensus is, in all cases, the overriding principle. In the past, for example, Ethiopia's EITI accession was rejected by civil society representatives on the EITI Board, who took the view that the regime was a dictatorship. Due to the consensus principle, there was no option but to accept this minority decision.



Prof Eigen worked for the World Bank for many years, in posts including Director of the Regional Mission for Eastern Africa. In 1993, he founded Transparency International, a non-governmental organisation dedicated to fighting corruption worldwide. Professor Eigen is one of the initiators of the EITI and was Clare Short's predecessor, holding office as the first Chair of the EITI Board from 2006 to 2011.

EITI: background and outlook

During the first few years of its existence, the EITI came in for considerable criticism, focusing, in essence, on the question of why disclosure of payments was of any practical use. After all, it was argued, columns of figures don't feed a hungry person or send a child to school. However, the importance of regular disclosure of these figures should not be underestimated, Professor Eigen said. Provided that they are properly documented, they generate interest from the media, which then report on the payments and revenue streams in the extractive sector. Equipped with this information, the general public can then participate in the debate and national parliaments have the figures they need to make budget decisions. Prior to the EITI's establishment, powerful elites in some countries kept silent about these payments. Once the figures are available, however, what is the next step?

Due to the growing acceptance of the EITI, its initially limited mandate was expanded under Clare Short, the present Chair of the Board. In order to ensure that none of the stakeholders withdrew from the process, it was necessary to introduce this change incrementally. Professor Eigen looked back on his time as Chair of the EITI Board and reflected on his own experience in this context. He recalled that after he

appraised the US's forthcoming Dodd-Frank Act in a manner considered overly favourable by industry, some EITI representatives indicated that they planned to withdraw from the EITI process altogether. An extremely sensitive approach to this type of issue is therefore required, also at the national level, Professor Eigen said.

There is scope to widen the EITI's mandate to many other areas. The Natural Resource Charter summarises the factors of importance in improving conditions in resource-rich countries. Transparency plays a crucial role, as the EITI stakeholders have come to recognise. However, Germany should be mindful that it is impossible to solve all the problems at once, said Professor Eigen.

Professor Eigen therefore dampened some of the participants' stated expectations of the Transparency Summit, pointing out that not every topic can and should be addressed by the MSG simultaneously. He recommended a slow and incremental broadening of the mandate. Anyone who expects the MSG to resolve all the various challenges at once runs the risk of weakening or entirely forfeiting consensus as the fundamental principle governing the EITI's activities.

EITI in the banking and financial sector



David Diamond, Global Co-Head of ESG,
Allianz Global Investors and EITI Board member

For international investors, environmental, social and corporate governance (ESG) criteria are becoming increasingly relevant in country and company assessments. ESG thus has an impact on their investment decisions, said David Diamond. ESG criteria include national good governance practices and issues relating to the granting of licences and concessions to companies. Here, there is a direct connection to the EITI. However, corporate or country performance, measured against ESG criteria, is not always regarded as relevant by all investment sector stakeholders, even though various studies show that there is a correlation between companies' returns and their ESG compliance. This applies, for example, to the link between ESG compliance and high risk-adjusted returns. Furthermore, well-run companies' return on equity is 23.8 per cent higher than the figure for poorly managed companies.



David Diamond currently represents the investor constituency on the EITI Board, which he joined in 2013. He is Global Co-Head of Environmental, Social and Corporate Governance (ESG) at Allianz Global Investors, having previously worked in asset management at Crédit Lyonnais, BNP Paribas and Amundi. He is a board member of the French Social Investment Forum and a member of various international reporting initiatives' working groups.

EITI in the banking and financial sector



Institutional investors in the EITI: More than 80 global investment institutions, which collectively manage over USD 19 trillion, have signed the Investors' Statement on Transparency in the Extractives Sector and support the EITI. This group is represented on the EITI Board by David Diamond. In addition, more than 90 of the world's largest oil, gas and mining companies have chosen to become EITI Supporting Companies. They have five representatives on the EITI Board.

EITI in the banking and financial sector

In addition to their ranking of countries, investors produce ratings for companies, including those operating in the extractive sector. They apply a range of criteria, including operations in sensitive areas, relations with local communities, environmental and social impact analysis, and anti-bribery and anti-corruption strategies. In this way, investors benefit from the EITI Standard through their lower exposure to the risks associated with investing in extractive sector companies.

The EITI Standard can therefore bring benefits for all parties along the value chain:

- (1) Candidate countries: improved governance and international credibility; EITI Candidate status is evidence of a serious intention to combat corruption.
- (2) Supporting countries: improved stability in supplier countries of oil, gas and other natural resources.
- (3) Companies: benefits resulting from a better business and investment climate in Candidate countries through improved transparency and good governance. Enhanced political stability is conducive to long-term investment, which is essential in the development and extraction of resources.
- (4) Investors: They benefit from the lower risks associated with investing in extractive sector companies.



EITI in the banking and financial sector



However, transparency alone is not enough, according to David Diamond, as investors are now attaching more importance to evidence that disclosure of figures in a report – i.e. EITI implementation at the local level – genuinely leads to improvements. Transparency is not regarded as a benefit in itself but is seen as a mechanism for improving governance. In the EITI context, it is not about the reporting itself but the tangible impacts achieved in the country concerned, such as progress on combating corruption, better access to concessions and licences, increases in foreign direct investment, and a lively public debate about the extractive sector.



The role of the EU's transparency rules and the Dodd-Frank Act in EITI implementation



Marinke van Riet, International Director, Publish What You Pay and EITI Board Member

Unlike the EITI, Publish What You Pay calls for mandatory rules and standards, rather than pursuing a voluntary approach. This prompted

Marinke van Riet to describe the EITI and Publish What You Pay as 'Beauty and the Beast'. Through intensive lobbying, Publish What You Pay has been instrumental in achieving various landmarks in the campaign for more transparency in the extractive sector, including the adoption of the Dodd-Frank Act in the US and the EU's Transparency Directive. Marinke van Riet explained that the Directive – in contrast to the EITI – covers all payments, not only those made at the national level. The EITI is therefore regarded in the US as the national component of Dodd-Frank.

In terms of her expectations of D-EITI's activities, Marinke van Riet called for alignment of EITI Reports to the provisions of the EU Transparency and Accounting Directives, as well as an EITI Requirement for project-based reporting. For Germany, she would also like to see faster publication of the national report; at present, publication takes two years on average for the EITI member states.



After working at Marie Stopes International, an NGO, in various African countries, Marinke van Riet joined Publish What You Pay (PWYP) in 2011 to take up the post of International Director. PWYP campaigns for mandatory publication, by stock marketlisted extractive sector companies, of full details of taxes, royalties, licence fees and other payments to governments. Marinke van Riet represents civil society on the EITI Board.

Preliminary discussions between the D-EITI multi-stakeholder group members already appointed

The preliminary discussions of the multi-stakeholder group were led by Uwe Beckmeyer, the Special Federal Government Commissioner for EITI implementation in Germany. The aim of the preliminary discussions was for the members to get to know each other and agree their expectations for the MSG. The discussions were held in the presence of the audience in the hall. Although the participants had already been nominated by their stakeholder groups before the Transparency Summit, they were not officially appointed by the BMWi until April. The mood during the presentations was predominantly positive, signalling optimism that the work of the group and the implementation of the D-EITI can really make a difference.

After Uwe Beckmeyer opened the meeting, the stakeholder groups outlined their expectations of the MSG. Mr Beckmeyer welcomed the constructive discussions.

Below are some of the contributions and impressions from the lively debate:

Matthias Wachter, representative of the private sector stakeholder group: Although Mr Wachter did not see the need for measures to tackle corruption in Germany, he regarded the EITI's voluntary approach as necessary and important: transparent and well-functioning markets are essential for both consumers and businesses. Moreover, D-EITI sets an example for other countries. However, he thought it important not to overburden the multi-stakeholder group with too many issues and to avoid double regulation in relation to existing reporting obligations. Existing initiatives and regulations should be promoted instead.

Prof Edda Müller, representative of the civil society stakeholder group: Professor Müller hoped for an open discussion process and a willingness to reach consensus. She did not want issues that do not initially appear to form part of the MSG's remit to be barred from discussion, since only a broad approach will enable new topics to be identified and developed conceptually. The message sent by D-EITI will be immensely important – the MSG has the task of identifying the issues that are genuinely relevant to Germany as a site for business and investment.



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