

Statement by the MSG on the implementation of the payment reconciliation pilot in the 4th D-EITI report

For two years now, the D-EITI has been pursuing the goal of developing and implementing an alternative for payment reconciliation as part of a pilot process. While maintaining the quality of the payment data collected and equivalent control, the new procedure is intended to focus on the functionality and control of government systems. Besides, the new procedure is thought to be more efficient so that resources can be freed up and made available to improve other areas of EITI implementation. As payment reconciliation is a quality assurance measure and a central element of EITI implementation worldwide, the D-EITI is doing pioneering work with the development and implementation of the pilot process, which can contribute to the future development of the International EITI Standard.

The essential basis of the new procedure for Germany is a multi-level approach through which the quality of the payment data is ensured after an annual risk assessment. In this 4th D-EITI report, this quality assurance was carried out by the Independent Administrator (IA) who checked the payment data for plausibility. The Multi-Stakeholder Group (MSG) adopts the D-EITI Report based on the IA work report, the draft chapter on “Disclosed Payment Flows and Quality Assurance” and the recommendations issued by the IA. The alternative procedure for quality assurance of the regularity of payment flows was tested for the first time in the 3rd D-EITI Report and continued and developed further in this 4th D-EITI Report. This dynamic procedure could be gradually updated and improved during the ongoing pilot process to reflect the ideas of the D-EITI MSG.

In the course of the two pilot phases, the D-EITI MSG had detailed and intense discussions about the goal and the basics of the alternative quality assurance procedure as well as its role and task in this process. This was challenging at times, but at the same time brought valuable experience for the further development of the D-EITI. As a result, the MSG has come to the conclusion that the basic concept for the continuation of the pilot process with the cornerstones defined by the MSG and based on the previous recommendations made by the IA for the 4th D-EITI Report has been properly implemented.

The MSG adopted the risk assessment on the regularity of payment flows contained in the IA work report as a basis for the implementation and further development of the pilot process and the plausibility check of the data collected as a viable option for the implementation and further development of the pilot process.

This procedure allows to assure the quality of the information reported by the companies in the data collection on the amount of money paid to government agencies. Thanks to the explanations provided by the IA, the MSG was able to understand the procedures applied by the government agencies concerned, the underlying audit and control standards, the audit methodology and the work results of the IA, and thus the final assessment on the data quality.

The MSG considers that the risk assessment procedure tested in the implementation of the pilot process as an alternative procedure for quality assurance is basically suitable. Therefore, the MSG believes that the entire pilot process as a multi-level approach can replace the previous procedure of payment reconciliation.

The new procedure provides a reliable assessment of whether or not there are sufficient signs of risks to indicate that payment flows to government agencies related to natural resources are not being properly processed during the respective reporting period.

The new procedure describes in detail the assessment and collection of payment flows as well as the related internal and external control systems and provides a very nuanced picture of the assessment and collection of the extraction royalties applicable to specific natural resources and the associated parliamentary control. This is a clear added value of the new process. Besides, following a recommendation made by the IA, a regular process will be used on an annual basis to gather information for the risk assessment. As with data provision in payment reconciliation, this regular process will focus primarily on the provision of information by the government agencies.

In addition, the supplementary descriptions given in the 4th D-EITI report, including those on anti-corruption rules and tax collection and assessment, have added value to the report.

The MSG agrees with the IA in that the risk assessment could not be described in the same level of detail for all payment flows. The MSG considers it useful to examine how, among other things, important aspects of the collection of trade tax can be described in more detail in the report, especially for the specific recipients of payments from the extractive sector.

Through a dynamic development of the pilot process, the very complex descriptions could be simplified in the future, especially to improve the general comprehensibility with regard to the interest of a broader public in the EITI countries as a whole.

The procedure for assessing the plausibility of the reported payments results from the outcome of the risk assessment. The MSG believes that the new process will allow the IA to assess whether the MSG can complete the quality assurance required by Requirement 4.9 of the EITI Standard based on this multi-level pilot approach. In doing so, the IA applies internationally standardised test criteria which are considered proven and safe although they cannot be influenced by the MSG. Nevertheless, the MSG requests from the IA conclusive assessments including a transparent derivation of results for future plausibility checks.

The MSG believes that the outcome of the payment reconciliation pilot process and its impact on D-EITI reporting have contributed to the objective of producing a comprehensible and comprehensive 4th report on the German extractive sector.

As a result, the MSG agrees with the IA in that no systematic gaps were identified that could result in differences between the companies' payment information and the corresponding government revenue.

The role of the German MSG for the quality assurance of payment data is strengthened with this alternative procedure. This requires that assessments and results must be sufficiently comprehensible for all members of the MSG. To this end, the exchange with and the advice of the IA must always be guaranteed in the future. If the pilot process is continued, the MSG intends to hold further discussions on the question of whether and to what extent it can make further contributions to the risk assessment process.

The evaluation of the alternative procedure applied and expanded in the 4th D-EITI report to make sure that payment flows in Germany have been processed properly remains the final responsibility of the international EITI Board.

The D-EITI MSG recommends that the risk-based systematic approach and the check of the collected payment data for plausibility result in a standard-compliant process for quality

assurance of the payment flows. The provision and assessment of information on government institutions and processes by the IA goes well beyond the information obtained from the payment reconciliation. Therefore, the MSG believes that the entire pilot process in Germany is an opportunity because it increases the knowledge available significantly, and improves comprehensibility and transparency in D-EITI reporting.

By implementing the pilot process, the MSG intends to contribute to the success of the pilot initiative and, in the long term, to the further development of the EITI Standard. Nevertheless, it is important to emphasise that the specific design of the alternative procedure for quality assurance is currently still tied to the German context. Before the procedure is transferred to other EITI countries, an in-depth analysis will be required to find out whether the procedure is suitable for the context of the country in question.

Finally, the D-EITI MSG thanks the EITI Secretariat and the EITI Board for the opportunity to continue the implementation of the pilot initiative under the D-EITI with the 4th D-EITI report. The MSG also thanks the participating government agencies and companies for their cooperation and support of the MSG in the reporting process.

The D-EITI MSG will be happy to engage in an intensive exchange on experiences with the implementation of the procedure and will readily support EITI partner countries in gaining key insights from the implementation of the German pilot process.

We suggest that the international EITI Secretariat organise a workshop with the representatives of the respective multi-stakeholder groups of the other countries participating in or interested in the EITI pilot process. This would be an opportunity to present and discuss the different contents and experiences from the national implementation of the EITI pilot process and, possibly, receive new suggestions.