Extractive Industries- Sustainable Growth and Price Volatility: General Introduction to the Role of the SAI and Support from the World Bank

CPA Henry Amuguni
(Senior Country Financial Management Specialist, World Bank Group)
World Bank Group

• **Mission:** Eradicate extreme poverty, promote shared prosperity

• **Made up of 5 Institutions:**
  - International Bank for Reconstruction and Development (IBRD),
  - International Development Agency (IDA),
  - International Finance Corporation (IFC),
  - Multilateral Investment Guarantee Agency (MIGA) and
  - International Committee for Settlement of Investment Disputes (ICSID)

• **Bank products**
  - Development Finance- Loan/credit, grants/Trust Funds (TF) through DPOs, IPL and P4R instruments
  - Knowledge sharing- A&A, Capacity development, Research
  - Partnerships
Extractive Industries Transparency Initiative (EITI)

- **Extractive industries**: Oil, gas and mining revenues
- **Voluntary association** of stakeholders with shared goals: countries, companies, CSO and donors.
- The global EITI launched in 2004
- Promote and supports **improved transparency, accountability and good governance** in resource-rich developing countries
- **Improved disclosure** and reconciliation of revenues received by government
- Full publication and verification of company payment
Challenges of EI in Developing Countries

- EI major contributors to GDP, taxes, exports and jobs and can be driver for sustainable development
- In many developing countries EI not associated with national and local development
- Cases of communities further disadvantaged by EI
- Many resource rich developing countries have below average growth performance
- Challenges of corruption and poverty due to weak governance and lack of transparency
- Insufficient in-country technical capacity
- Environmental and social challenges
- Dependency on revenues and exposure to price volatility e.g. Nigeria oil and Zambia copper
Examples of Fiduciary Risks in EI

- Generally state-owned with political-economy risks
- Barriers to entry due to high initial costs and dominance by international companies
- Uncertainty of revenues and payback period
- Lack of transparency in contract negotiation and award
- Lack of government capacity to oversee sector
- Tax-related risks including abuse of incentives, profit shifting and transfer mispricing
- Misappropriation of revenues through fraud/corruption
- Bribery/kick-backs in licensing, contract negotiation/renegotiation and enforcement of regulations
Importance of EI to Supreme Audit Institution (SAI)

- EI often largest generator of foreign exchange and government revenues and SAI need to play key role in audit and improved financial reporting/disclosure
- EI have unique accounting and reporting features
- Need to enhance capacity of the SAI in terms of resources, staff skills, numbers
- Participation in external validation of EITI process done by independent auditor
- Recommendation on dealing with any financial irregularities and instituting meaningful reforms in the sector
Some areas of Focus by SAI in EI

- **Governance** - financial reporting, audit and disclosure. Improved legislation through SAI reports to PAC
- **Capacity Building** - Of SAI audit (ICT, forensic, financial, V-F-M, environmental) and annual budget, EI financial statement preparation, CSO capacity and partnership with SAI
- **Economic Management** - SAI support in recommendations on how to avoid economic drawback from resource boom and commodity price volatility
World Bank/IDA and EITI Activities

- **WB in partnership with other donors** provides technical and financial support for adoption and implementation EITI activities
- Achieved through WB administered **Multi-Donor Trust Fund (MDTF)**
- **Donors** under the MDTF include Australia, Belgium, Canada, the EC, Finland, France, Germany, Netherlands, Norway, Spain, Switzerland, UK, USA
- **WB and MDTF donors** focus on: i) reaching out to interested countries, ii) providing TA and grant funding, and iii) promoting EITI process globally, dissemination of knowledge and sharing best practice.
WB Administered MDTF Grant for EITI Activities

- EITI is core part of WB sector strategy and the WB governance and Ant-Corruption strategy
- Beneficiary countries include Nigeria, Tanzania, Kyrgyz Republic, Mongolia
- It also includes conflict and fragile states such as Liberia (diamonds), Sierra Leone (diamonds), Iraq (gas and oil), Afghanistan (minerals)
- MDTF grants support wider sector reforms on PFM and institutional reforms for regulation of sector and strengthening of capacity of CSO.
World Bank Support to SAI Community

- Many **WB Investment Lending/DPO** have component for TA to institutional strengthening of SAIs
- **WB support in policy dialogue** between SAIs and government for SAI independence and mandate
- Key/lead role in **MOU between donors and INTOSAI** (23 donors including WB signed up to date)
- **MOU** provides common approval and development support to SAIs
- Focus on **strengthening capacity of SAIs** and improved accountability of public funds
- **SAI capacity development fund (SAI-CDF)** administered by WB set up in 2014 as MDTF with initial USD5 million from Switzerland SECO
WB Administered SAI-CDF MDTF Grant

- 9 Projects approved for funding of capacity development of SAIs in low capacity countries
- One regional project approved for supporting implementation of ISSAIs in ASEAN Region
- Projects aligned with strategic development of SAIs/INTOSAI regional bodies
- Projects provide support to creating capacity for:
  - Implementation of ISSAIs,
  - V-F-M/Performance audits,
  - Developing code of ethics,
  - Implementing quality control arrangements,
  - Developing IT audit capacity,
  - Assisting SAI staff obtain professional accountancy qualifications.
Q & A?

Asante Sana!!