

Establishing Material Threshold for the LEITI Reporting

Background

Pursuant to the revised EITI Rules of 2011, specifically Requirement 9, the Multi-stakeholder Steering Group (MSG) shall define what material payments and revenues comprise and what constitutes a predefined, reasonable material threshold. Materiality should be considered within the context that if a payment or revenue stream is excluded or misstated the final EITI report could significantly/materially be affected.

The LEITI Secretariat raised the issue for discussion at the 25th January meeting of the MSG. Accordingly, the MSG instructed the Secretariat to provide analysis and recommendation for the establishment of material threshold(s) to be used in the LEITI reporting.

Definition

Materiality is defined such that by excluding any payment the final EITI report would be significantly affected. A non-material payment does not necessarily have to be excluded from the LEITI reporting process. It means that EITI Secretariat in its wisdom to quality proof our reporting will not consider weaknesses (if any) in our reporting for payments falling below the material threshold. In fact, we expect our reporting pattern to continue unabated by publishing all payments by all oil, mining, agriculture and forestry companies. In doing so, we can achieve two objectives. First, by including all companies in the extractive sectors in our reporting we can achieve the “name and shame” objective, and simultaneously fulfill the mandate of the LEITI Act of 2009 requiring all companies in the covered sectors to join the LEITI.

Second, by establishing a material threshold per EITI requirements, we can effectively minimize resources on companies and revenue streams that are considered immaterial. Payments considered immaterial should be secondarily reconciled for a comparably lower fee.

Methodology

The Secretariat used data from the 3rd EITI Report for Liberia which covered Fiscal 2009/2010. The report was completed by Moore Stephens, LLC. All companies and revenue streams were considered and are included in these analyses.

Given that the data falls into two categories (i.e. payments made by extractive and other covered sectors and revenue received by the Government), the Secretariat weighed the pros and cons of using each as the basis for completing this report. We concluded that the total amount received by the Government (US\$71m) provides an all-inclusive data and were sufficient information for our research.

The idea to exclude payments which are subject to deductions by other agencies of government excluding Ministry of Finance (resident permits, driver licenses, work permits, etc.) was considered. The intent was to understand the material benefits of keeping these revenue streams on our reporting templates.

A. Revenue Stream Analysis

Fees subject to deductions by other parties prior to deposit into the Consolidated Fund includes resident permits, work permits, vehicle registration, and driver license. Total payments in this category across all sectors and companies were \$461,613 or .6% percent of total revenue receipts, with sectorial breakdown as follows:

Sector	Fees Subject to Deduction	Sector Total	% of Sector Total
Agriculture	\$ 217,012	\$ 12,299,858	1.8%
Mining	\$ 207,589	\$ 38,382,860	0.5%
Forestry	\$ 34,200	\$ 12,177,453	0.3%
Oil	\$ 2,812	\$ 9,035,942	0.0%
Total	\$ 461,613	\$ 71,896,113	0.6%

When reviewed further by payment category, driver license fee accounts for an insignificant amount of total fees that are subject to third party deductions.

Sector	Driver License	Resident Permits	Vehicle Registration	Work Permits	Total
Agriculture	\$ -	\$ 11,875	\$ 172,037	\$ 33,100	\$ 217,012
Mining	\$ 675	\$ 24,700	\$ 87,114	\$ 95,100	\$ 207,589
Forestry	\$ -	\$ 5,850	\$ 24,100	\$ 4,250	\$ 34,200
Oil	\$ -	\$ -	\$ 2,812	\$ -	\$ 2,812
Total	\$ 675	\$ 42,425	\$ 286,063	\$ 132,450	\$ 461,613

The Secretariat recommends that all reporting templates for the 4th EITI report for Liberia be modified to exclude payments for Driver License. Interestingly, in our meetings with the General Auditing Commission (GAC) suggestions were made to exclude fees subject to deduction owing to the costs and benefits of reconciling these payment categories. The Secretariat, however, believes the remaining categories account for increasingly material amounts and should continue to form part of LEITI reporting.

B. In-Kind / Social Payments

According to the revised EITI Rules, Requirement 9 (g), “Multi-stakeholder groups are encouraged to apply a high standard of transparency to social payments and transfers, beginning with a clear understanding of the types of payments and transfers, the parties involved in the transaction, and the materiality of these payments and transfers relative to other benefits streams. If the Multi-stakeholder group agrees that social payments and transfers are material, the multi-stakeholder group is encouraged to develop or modify reporting templates with a view to achieving transparency commensurate with other payment revenues. Where reconciliation of key transactions is not possible (e.g., where company payments are ‘in-kind’ or to a third party), the multi-stakeholder group may wish to consider unilateral company and /or government disclosures to be attached to the EITI Report.”

The new rules call for including all material ‘in-kind’ contributions by extractive companies in our EITI reports. The Secretariat recommends that the materiality definition for ‘in-kind’ contributions should follow the sector-specific threshold as approved by the MSG.

C. Oil Sector

A total of six firms reported in the oil sector, accounting for \$9,035,942 in revenue receipts. A review of the sector is described below:

Company	Gov Amt	Co Amt
Anadarko Liberia Company/Woodside West Africa Pty. Limited/Respol/Anadarko Liberia Block 10	\$ 3,212,134	\$ 3,212,134
National Oil Company of Liberia	\$ 2,268,747	\$ 2,268,747
Regal Liberia Limited/European Hydrocarbons L	\$ 1,414,072	\$ 1,414,072
Oranto Petroleum Liberia Limited	\$ 1,071,039	\$ 1,071,039
Broadway Consolidated Plc	\$ 860,791	\$ 860,791
International Ressources Strategies Energy Libe	\$ 209,159	\$ 209,259
Total Oil	\$ 9,035,942	\$ 9,036,042
Payments less than 100k	\$ - 0.00%	\$ - 0.00%
Payments less than 200k	\$ - 0.00%	\$ - 0.00%
Payments less than 300k	\$ 209,159 2.31%	\$ 209,259 2.32%

The Secretariat reviewed three trenches of threshold (\$100k, \$200k, and \$300k). International Resources Strategies Energy was the sole firm whose payment as acknowledged by the Government was below \$300k. If a threshold is set at this amount, roughly 2.31% of oil sector revenue will be considered immaterial based on Fiscal 2009/2010 data. In our view this percentage point is materially significant for this sector given that there are relatively few firms to be reconciled.

The Secretariat therefore recommends that the material threshold for the oil sector be set at \$200k starting with the 4th EITI report for Liberia. Based on Fiscal 2009/2010 data, the materiality of the oil sector reporting is not affected with the threshold set at \$200k.

D. Agriculture

The Agriculture sector accounted for \$12,299,858 or 17.1% of total government receipts from the extractive sectors for Fiscal 2009/2010. Further review shows two companies (The Lee Group and ADA/LAP) that did not submit reporting templates but the Ministry of Finance acknowledged receiving payments receipts from.

Company	Gov Amt	Co Amt
Firestone Liberia Incorporated	\$ 7,635,430	\$ 7,635,430
Liberian Agriculture Company	\$ 1,502,568	\$ 1,503,435
Cavalla Rubber Corporation	\$ 1,133,763	\$ 1,133,763
Salala Rubber Company (SRC)	\$ 788,973	\$ 788,973
Sime Darby	\$ 345,003	\$ 345,003
Buchanan Renewables Fuel Incorporated	\$ 317,005	\$ 317,005
The Lee Group of Companies	\$ 108,956	\$ -
The Liberia Company (LIBCO-COCOPA)	\$ 105,335	\$ 105,335
ADA/LAP	\$ 93,499	\$ -
Libinc Oil Palm Incorporated	\$ 70,511	\$ 70,511
Morris American Rubber Company	\$ 69,458	\$ 69,458
Liberia Forest Products Incorporated	\$ 57,731	\$ 57,731
Equatorial Palm Oil	\$ 53,111	\$ 53,111
Novel Liberia Incorporated	\$ 18,516	\$ 18,516
Total Agriculture	\$ 12,299,858	\$ 12,098,270
Payments less than 10k	\$ - 0.00%	\$ - 0.00%
Payments less than 20k	\$ 18,515.99 0.15%	\$ 18,515.99 0.15%
Payments less than 30k	\$ 18,515.99 0.15%	\$ 18,515.99 0.15%

To arrive at a material threshold for the agriculture sector, the Secretariat looked at payments less than \$10k, \$20k, and \$30k, and found that the latter two showed the same results. Only one firm, Novel Liberia Limited fell in this category, accounting for less than half of a percentage point in agriculture sector contribution.

Given that payments below \$30k account for .15% or less than half of a percentage point of the combined sector reporting, and that excluding this amount does not materially affect the quality of the sector reporting, the Secretariat recommends the threshold for the Agriculture Sector be set at \$30k.

E. Forestry

According to the Ministry of Finance there were roughly 900 forestry companies and individuals from which a total of \$12,177,453 was collected in Fiscal 2009/2010. Of this amount \$603,904 or 5% of the sector's total were contributed by pitsawers.

Company	Gov Amt	Co Amt
International Consultant Capital	\$ 3,659,476.2	\$ 3,659,476.2
Geblo Logging	\$ 1,840,805.5	\$ 1,840,805.5
Alpha Logging and Wood Processing Incorporated	\$ 1,502,174.2	\$ 1,502,174.2
Euro Liberia Logging Company	\$ 1,363,673.2	\$ 1,363,673.2
Atlantic Resources Limited	\$ 1,361,521.6	\$ 1,361,521.6
The Liberia Tree and Trading Company Incorporated	\$ 841,560.5	\$ 841,371.1
E.J & J Investment Corporation	\$ 637,887.0	\$ 637,887.0
B & V Timber Company	\$ 112,987.5	\$ 112,987.5
Eco Timber	\$ 74,811.4	\$ -
Universal Forestry Corporation	\$ 73,937.9	\$ 73,955.8
Tarpeh Timber	\$ 58,187.3	\$ 64,855.3
Bargor & Bargor Enterprise Incorporated	\$ 24,241.3	\$ 24,242.1
MOISEMA KAMARA	\$ 20,229.0	
ESIAK M. NYEI	\$ 16,353.0	
ANET S. GBAGUIE	\$ 16,278.0	
ABRAHAM KOLLIE	\$ 16,029.0	
LORPO JOHNSON	\$ 14,132.8	
PALAY GEE	\$ 14,050.0	
OLIVER MALUE	\$ 13,129.2	
RICHARD BORBOR	\$ 10,470.0	
ELIAS KANNEH	\$ 10,305.0	
BOIMA FREEMAN	\$ 7,813.0	
EUNICE M. SONPON	\$ 7,575.0	
Ecowood Incorporated/Texas International Incorporated	\$ 7,323.0	\$ 7,323.0
MENNIE JOHNSON	\$ 7,239.0	
SAMUEL S. GEORGE	\$ 6,939.0	
AARON KONNEH	\$ 6,807.0	
MOHAMED KANNEH	\$ 6,531.0	
ROBERT FLANZAMATON	\$ 6,502.8	
OBDEIAH KWAMIE	\$ 6,420.6	
EDWARD S. FALLAH	\$ 6,282.0	
JOE FLANZAMATON	\$ 6,175.8	
ZANS JUSU	\$ 5,607.0	
SLAH G. SONNIE	\$ 5,569.1	
Malavasi Logging Company	\$ 5,168.6	\$ 5,168.6
JOSEPH F. BOAKAI	\$ 5,062.0	
All Others Below \$5k (98% of Pitsawers)	\$ 398,199.0	\$ 8,824.0
Total Forestry	\$ 12,177,453	\$ 11,504,265
Payments less than 5k	\$ 398,199.00 3.27%	\$ 8,824.00 0.08%
Payments less than 10k	\$ 495,213.86 4.07%	\$ 21,315.58 0.19%
Payments less than 15k	\$ 557,301 4.58%	\$ 30,140 0.26%

To complete the analysis for the forestry sector for the purpose of recommending a material threshold, the Secretariat considered payments set below \$5k, \$10k, and \$15k. Additionally, we considered the rationale and probability of reconciling payments especially in light of the challenges faced in locating and obtaining audit certificates from Pitsawers.

At the threshold of \$5k, \$398,199 or 3.27% of total forestry sector revenue will be considered immaterial. While this may seem comparably reasonable, the task of locating many pitsaws within the average time allowed for the reconciliation process has always been a challenge. More so, the burden of obtaining audit certificates as required by EITI rules poses a daunting task for firms/individuals in this category.

While the total amount (\$495,213.86) at the threshold of \$10k seems significant in aggregate terms, average revenue contribution per company/individual was only \$561. At this threshold, key players amongst pitsawers can be identified and their payments reconciled, leaving more than 98% of all pitsawers below the threshold.

At \$15k, \$557,301 or 4.58% of total sector receipts will fall below the threshold. Not only that this is a relatively material amount, but at this threshold we could easily “shadow” key contributors amongst pitsawers whose payments could be material within that category.

With the foregoing, the Secretariat recommends a material threshold of \$10k for the forestry sector.

F. Mining

Total government receipts for this sector were \$38,382,860. While small scale miners posed the greatest challenge for reconciliation in this sector during preparation of the Third Report, their combined contribution was only \$200,511 or 1% of total sector receipts. Small scale miners accounted for 68% of total number of companies/individuals reporting in this sector.

Company	Gov Amt	Co Amt
China Union Mining Corporation Limited	\$ 23,801,310	\$ 23,801,310
ArcelorMittal Liberia Limited	\$ 7,920,464	\$ 7,920,464
BHP Billiton World Exploration	\$ 2,321,679	\$ 2,321,679
Putu Iron Ore Mining/Mano River Iron Ore	\$ 755,840	\$ 755,840
AmLib United Minerals	\$ 394,070	\$ 394,070
Australian Exploration	\$ 382,711	\$ -
Yuly Diam Company Incorporated	\$ 271,819	\$ 271,819
Konblo Bumi Incorporated	\$ 248,159	\$ 248,159
Royal Company	\$ 236,791	\$ 236,791
Bea Mountain	\$ 139,666	\$ 139,666
Golden Mass Trading	\$ 126,472	\$ 126,472
G-10 Exploration Incorporated	\$ 100,613	\$ -
Treco Mining Company	\$ 99,643	\$ 99,643
Deveton Mining Company	\$ 88,312	\$ 88,312
Bukon Jedeh Resources Incorporated	\$ 83,350	\$ 83,350
West Africa Gold and Diamond Incorporated	\$ 80,040	\$ 81,440
Hummingbird Resources Incorporated	\$ 77,828	\$ 77,828
ADMT Company Incorporated	\$ 75,494	\$ 76,592
Liberty Gold and Diamond Mining	\$ 58,343	\$ -
Texas International Group (TIG)	\$ 54,156	\$ 54,156
Global Minerals Investment	\$ 45,728	\$ -
Golden Vision Trading	\$ 45,071	\$ 45,071
Youssef Diamond Mining Company	\$ 42,871	\$ -
African Aura Resources Liberia Limited	\$ 42,622	\$ -
Sinoe Exploration Limited	\$ 40,555	\$ 40,555
Pedra Corporation (Pedra Mining Company)	\$ 37,921	\$ 37,921
H-10 International Incorporated/LME Collaterate	\$ 36,367	\$ 36,367
Horizon Investment Incorporated	\$ 33,121	\$ -
XIN YUAN TRANSNATIONAL CORPORATION INC.	\$ 29,948	\$ -
Diasoma Mineral Incorporated	\$ 28,815	\$ -
Shine Star Business Corporation	\$ 27,960	\$ -
KBL Liberia Mining Company	\$ 27,640	\$ -
M & G Infinity Incorporated	\$ 26,790	\$ -
Noya Mining Company Limited	\$ 26,259	\$ -
S.A.J Minerals	\$ 25,925	\$ -
Vision Incorporated	\$ 25,436	\$ 25,436
Liberia Tailing Incorporated	\$ 25,267	\$ -
J.D.C Diamond	\$ 23,553	\$ -
Star Diamond Company	\$ 22,696	\$ 29,146
Estmor Gold Mining Company	\$ 21,988	\$ -
Jamu Resources Incorporated	\$ 21,609	\$ 21,903
Five Talents Incorporated	\$ 21,280	\$ -
Explorex Overseas Limited	\$ 20,452	\$ -
Weajue Hill Mining Corporation	\$ 20,333	\$ -
Fair view Mineral Incorporated	\$ 20,250	\$ -
TOUNKARAH AND GEVAH MINING COMPANY LTD	\$ 18,898	\$ -
Hualee International Corporation	\$ 18,042	\$ -
Ascension Resources Corporation	\$ 13,948	\$ 13,948
Sinlib Mining Company Liberia Limited	\$ 13,640	\$ -
CIT incorporated	\$ 13,482	\$ -
Afro Minerals Incorporated	\$ 12,138	\$ 12,138
Global Mining Incorporated (GMI)	\$ 10,595	\$ 10,595
Contact International Clearing Agency (CICA)	\$ 10,365	\$ -
RAFF Resources Incorporated	\$ 10,117	\$ -
N.E.S Incorporated	\$ 10,000	\$ 10,000
FAIR VIEW MINERAL INC/ (CHRISTO M. FOKO)	\$ 10,000	\$ -
All Others Below 10K (includes 98% of smallscale miners)	\$ 184,423	\$ 21,452
Total	\$ 38,382,860	\$ 37,060,668
Payments less than 10k	\$ 184,423.00	\$ 21,451.98
	0.48%	0.06%
Payments less than 15k	\$ 288,707.30	\$ 68,132.07
	0.75%	0.18%
Payments less than 20k	\$ 325,646.75	\$ 68,132.07
	0.85%	0.18%

For the purposes of determining an appropriate material threshold for this sector the Secretariat looked at payments below \$10k, \$15k, and \$20k.

A threshold at 10k will include 98% of all small scale miners and account for .48% of total sector government receipts from the mining sector. The count of firms does not change significantly between \$10k and \$15k, however, the percentage contribution to total revenue increased sharply from .48% to

.75%. At a threshold of \$20k, all but one of the small scale miners is excluded and the percentage accounted for in total sector receipts is .85%.

The Secretariat recommends the threshold be set at \$15k for the mining sector. At this threshold key players (e.g. XIN Yuan with payment of \$29,498) amongst small scale miners will be considered material and reconciled. Further, combined receipts at this threshold account for less than a percentage point of the sector reporting, and does not have any material impact on the quality of reporting for this sector. While the same argument could be made in favor of a threshold at \$20k, the Secretariat is mindful in setting a balance between ensuring that the value of the reconciliation process does not outweigh the cost.

The combined effect of the threshold recommendations is that a total of \$802,439 or 1.1% of the total revenue receipts from all oil, mining, agriculture, and forestry sectors would be considered immaterial.

G. Conclusion

It is important to note that materiality should not be viewed as a one size-fits-all. Each sector is unique with varying compositions of revenue streams. While some revenue streams will evolve over time others may remain stagnant or become obsolete. It is therefore important that an annual assessment of materiality using the latest payments/receipts data is used. The intent will be to modify the materiality definition so that meaningful payments and contributions are always reflected in the LEITI reports.