

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC96798

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| <b>Project Name</b>                    |  |
| <b>Region</b>                          | AFRICA   |
| <b>Country</b>                         | Africa   |
| <b>Lending Instrument</b>              | IPF  |
| <b>Project ID</b>                      | P162380  |
| <b>Borrower Name</b>                   | CREFIAF  |
| <b>Implementing Agency</b>             | CREFIAF  |
| <b>Environment Category</b>            | C - Not Required                                     |
| <b>Date PID Prepared</b>               | 01-Nov-2016  |
| <b>Estimated Date of Approval</b>      | 15-Jan-2017  |
| <b>Initiation Note Review Decision</b> | The review did authorize the preparation to continue |

**I. Introduction and Context**

**Country Context**

Africa is endowed with natural resources and has recorded over the last 10 years growth in the extractives industry sector. Despite the fall in the price of the commodities, the extractive industry continues to remain one of the main source of growth in the Sub-Saharan Africa. Yet, this growth is not being translated into the reduction of poverty alleviation and the improvement of services delivery for the population. Amongst the various explanations to this situation, the lack of effective oversight mechanisms across the sector emerges as the most important. This situation is characterized by (i) the insufficiencies in the legal framework and regulations governing the sector, (ii) the signing of contracts with the private sector containing provisions and regulations that are non-compliant with the law and (iii) the existence of the revenues not entirely recorded in the public treasury to finance public goods.

Improved oversight of extractive sector activities is therefore critical if the countries expect the population to benefit from the exploitation of the mineral, oil and gas. While it is crucial to address the issues associated with the legal framework and the compliance with the regulations, the transparency and accountability of the revenues from the extractive sector is an important complementary agenda. In this regard, the role of the oversight bodies such as Supreme Audit Institutions (SAI), Technical Inspectoral of the Ministry of natural resources, Civil Society Organizations is critical.

Also, tools such as the EITI+ framework recognize the role of these oversight bodies in the agenda to converge towards a greater impact of the extractive industry revenues on the public good. To this end, under the EITI+ framework , it is expected that the SAI produces a letter of confirmation that the verification of the revenues declared and recorded was performed in accordance with International Auditing Standards. Some countries fail to comply with EITI+ as a result of lack of

production of acceptable audit report on the revenues verification or delay in the production of the report.

While the SAIs are being considered as a key player in the oversight framework, they generally lack the capacity to fulfil this important mandate. The support to the SAIs to address this issue could be done on a country by country basis. However, a regional approach is deemed more adequate and cost effective particularly in a context where the SAIs in the Africa region are grouped by regional clusters.

The Francophone cluster is represented by the **Conseil Regional de formation des Institutions Supérieures de Contrôle des Finances Publiques de l'Afrique Francophone Subsaharienne** which is an International Association created in 1997 to strengthen the institutional capacity of Supreme Audit Institutions. It has legal status and is based in Cameroon. Main governing bodies include a General Assembly, a Regional Committee on Institutional Strengthening (CRRI) - the executive arm of CREFIAF and supporting Technical Committees.

CREFIAF resources are drawn from contributions of members, grants extended by donors notably the Canadian International Development Agency (CIDA), the African Development Bank (AfDB), the International Organization for Supreme Audit Institution (INTOSAI) through its technical arm the International Development Initiative (IDI) and the World Bank, and proceeds from CREFIAF publications and technical assistance services. CREFIAF membership is made up of 23 member countries from three Africa zones:

⇒ West African Zone: Benin, Burkina Faso, Cote d'Ivoire, Guinea Conakry, Mali, Niger, Guinea Bissau, Senegal and Togo;

⇒ Central African Zone: Cameroon, Gabon, Equatorial Guinea, Central Africa Republic, Democratic Republic of Congo, Republic of Congo and Chad ;

⇒ East and Southern Africa and the Indian Ocean: Burundi, Madagascar, Cape Verde, Comoros and Sao Tome and Principe.

### **Sectoral and Institutional Context**

CREFIAF adopted in 2012, the 2013-2017 strategic and operational plans covering 5 strategic pillars: (i) promote the independence of SAIs, (ii) strengthen the technical capacity of SAIs, (iii) reinforce the relationships between SAIs and stakeholders (parliament, media, civil society, sub-regional and international organizations), (iv) improve SAIs governance, (v) and consolidate the capacity of the CREFIAF technical secretariat.

The implementation of these plans was supported by the IDI, CIDA, the AfDB and the World Bank. IDI provided technical assistance in the field of institutional governance of the CREFIAF. CIDA's support focused on the development of a set of technical guidelines in the field of performance, financial and compliance audits. The AfDB project covered the development and the dissemination of the performance audit approach in selected countries. The World Bank project - Regional Support to French and Portuguese speaking Supreme Audit Institutions - P144954 - of about USD 1 million supported (i) the dissemination of financial audit methodologies, (ii) the strengthening of the relationship between the SAIs and their external stakeholders, (iii) and the

reinforcement of the institutional capacity of the CREFIAF technical Secretariat.

During the August 2014 CREFIAF's annual general meeting held in Yaoundé, the 23 members' countries endorsed a resolution by which CREFIAF was given a mandate to mobilize funds as to strengthen the capacity of the SAIs in the field oversight of the extractive industry.

To this end, CREFIAF is using a two complementary approaches. The first approach is to support the SAIs to address the cross-cutting topics associated with the oversight in the extractive industry such as (i) mining contracts' compliance with national laws and regulations, (ii) transfer price, (iii) social and environmental impacts, (iv) human rights issues including gender, and (v) relationship with other stakeholders involved in the oversight of the extractive industry. The second approach focuses on strengthening the capacity of the SAIs on issues related the financial audit of the revenues declared by the mining companies and the revenues recorded by the revenues generating administrations and the public treasury.

The first approach is being supported by CIDA through a project of USD 15 million effective on May 2016 for 5 years aiming to:

- establish a technical expertise at the CREFIAF by developing (i) extractive audit guidelines and audit training curriculum on various topics such as review of mining contracts, social and environmental impact, audit the transfer price, and (ii) communications tools allowing to reinforce the relationship between the SAI and the external stakeholders of the extractive industry sector;
- pilot the above mentioned tools in 4 selected countries (Burkina Faso, Cameroon, Madagascar and Mali).

From the limited period of implementation, key lessons learned show that (i) there is a strong expectation from the Civil Society Organization (CSO) and the Supreme Audit Institutions for a greater transparency on the extractive industry revenues, and (ii) obtaining of reliable information on the sector could be a challenge that is being overcome by an intensive policy dialogue. Lastly, the EITI+ initiative has been identified as a key success factor as the selected countries are either in the compliance process or intend to keep their compliance status.

The previous World Bank funded project supported the CREFIAF to (i) develop several audit guidelines such as financial audit, performance audit and code of ethics, (ii) test these tools through financial audit in 5 countries, and (iii) disseminate the tools in other countries. This track record in the field of financial audit gives to the World Bank a comparative advantage to support CREFIAF's second approach on the financial audit of the flow of revenues.

In this regard, the World Bank proposed project intends to focus on the audit of the revenues on an area which is not covered by CIDA's project but complementary. To this effect, the existing financial audit guidelines elaborated under the previous WB's project will be used to develop a manual on audit of the flow of revenue. This manual will be (i) tested in 4 countries (DRC, Gabon, Niger and Guinea) which are rich in resource wealth and where the provision of basic services to the population remains a concern for the Government and (ii) disseminated in the other remaining countries.

### **Relationship to CAS/CPS/CPF**

The World Bank proposed project is well aligned with both the CREFIAF strategic and operational

plans, particularly the third pillar focusing on the strengthening of the technical capacity of the SAIs. The improvement of the oversight of revenues obtained from the extractive industry is a crucial action in the World Bank Group's shared prosperity agenda. The World Bank proposed project is a second donor's response to the call for action made by the CREFIAF for a greater impact of the extractives industries revenues on the life of the citizen. Finally, the project will either consolidate the EITI+ compliance status of the beneficiary countries (DRC, Guinea, Niger) or contribute in achieving one compliance criteria (Gabon)

## II. Project Development Objective(s)

### Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve the oversight of the revenues from the extractive industry in targeted countries. This will lead to a more inclusive and sustainable economic growth stemming from extractive industry activities

### Key Results

The project's output elements are the following:

- (i) Number of auditors trained in the audit of revenues pertaining to the extractives industry,
- (ii) Number of reports issued by the SAI on audit of the revenues of the extractives industry,
- (iii) Time elapsed between the end of the audit and the publication of the report.

The outcomes of the projects are:

- (i) Increased capacity of staff from targeted Supreme Audit Institution and other relevant national institutions to carry out specialized extractive industries audit;
- (ii) Increased capacity of CREFIAF to collaborate on extractive industry audit.

## III. Preliminary Description

### Concept Description

The project will consist of three components: (i) supporting the Supreme Audit Institutions of selected countries to conduct audit of the revenues flow in the extractive industry; (ii) dissemination of the audit manual on flow of revenue to other SAIs; and (iv) project management, monitoring and evaluation.

Component 1: CREFIAF's capacity to coach/mentor its members was built in the field of the financial audit thanks to the support from the WB closed project which developed and tested in 5 countries audit guidelines and methodology in line with the International Standards for Supreme Audit Institutions (ISSAI). During the implementation of this project, about 20 staff from CREFIAF and the pilot SAIs were trained and accredited as CREFIAF experts. Also an eLearning platform was developed and all audit guidelines were adapted in eLearning training modules. The proposed project will leverage on the financial audit guidelines to (i) elaborate a manual on audit of the flow of revenue in line with EITI + requirement 4 on revenues collection and (ii) test this manual in DRC, Gabon, Niger and Guinea. Two audits related to the flow of revenues in the extractive industry will be conducted in each of these countries on two different years using CREFIAF experts and the auditors from the selected SAIs. The audit will consist in (i) ensuring that the contracts signed with the private sector in the extractive industry field comply with the legal framework and the regulations, (ii) reconciling the revenues (host Government's production entitlement, national state-owned enterprise company production entitlement, profit taxes, royalties, dividends, bonuses, license fees, rental fees, entry fees, any other significant payments and material benefit to

Government) declared by the private sector complied with the provisions of the contracts, (iii) reconciling the revenues declared by the private sector and recorded by the revenues generating administrations and the public treasury. In addition, to addressing the issue of the production of an audit report on the flow of revenues of the extractive industry in line with the international auditing standards and EITI+ requirement 4.9, the project will pay a special to the lead time between the completion of the audit and the publication of the report as to ensure a timely publication of the report. During the course of these audits, the Supreme Audit Institutions will rely also on technical expertise available at the Ministry of Natural Resource and synergies will be sought with CIDA's experts. Lessons learned from the audit will be incorporated to revise if needed the audit manual on flow of revenues.

Component 2: The project will support CREFIAF to use its existing training facility (Regional Training Institute and eLearning platform) to have a multiplier effect and disseminate at a lower cost, the final version of the above mentioned audit manual as to strengthen the capacity of the other member countries. This will be done by (i) adapting the audit manual in eLearning training modules, (ii) printing the manual for dispatching in the 23 SAIs, (iii) and providing local trainings sessions in 10 additional countries.

Component 3: Coordination of the above activities will remain with the Secretariat of the CREFIAF. This includes management of funds, ensuring that required outputs are delivered in an agreed timeframe and the financial audit of the project proceeds are conducted on time

To support a sound implementation of the project supervision resources have been allocated in the form of a BETF amounting US\$ 40,000

#### IV. Safeguard Policies that Might Apply

| Safeguard Policies Triggered by the Project    | Yes | No | TBD |
|--|-----|----|-----|
| Environmental Assessment OP/BP 4.01            |     | x  |     |
| Natural Habitats OP/BP 4.04                    |     | x  |     |
| Forests OP/BP 4.36                             |     | x  |     |
| Pest Management OP 4.09                        |     | x  |     |
| Physical Cultural Resources OP/BP 4.11         |     | x  |     |
| Indigenous Peoples OP/BP 4.10                  |     | x  |     |
| Involuntary Resettlement OP/BP 4.12            |     | x  |     |
| Safety of Dams OP/BP 4.37                      |     | x  |     |
| Projects on International Waterways OP/BP 7.50 |     | x  |     |
| Projects in Disputed Areas OP/BP 7.60          |     | x  |     |

#### V. Financing (in USD Million)

|  |     |                       |               |
|--|-----|-----------------------|---------------|
| Total Project Cost:                                  | 0.5 | Total Bank Financing: | 0             |
| Financing Gap:                                       | 0   |                       |               |
| <b>Financing Source</b>                              |     |                       | <b>Amount</b> |
| Supreme Audit Institutions Capacity Development Fund |     |                       | 0.5           |

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