



The United States Extractive Industries
Transparency Initiative

EITI Validation

USEITI Validation Discussion

June 28, 2016

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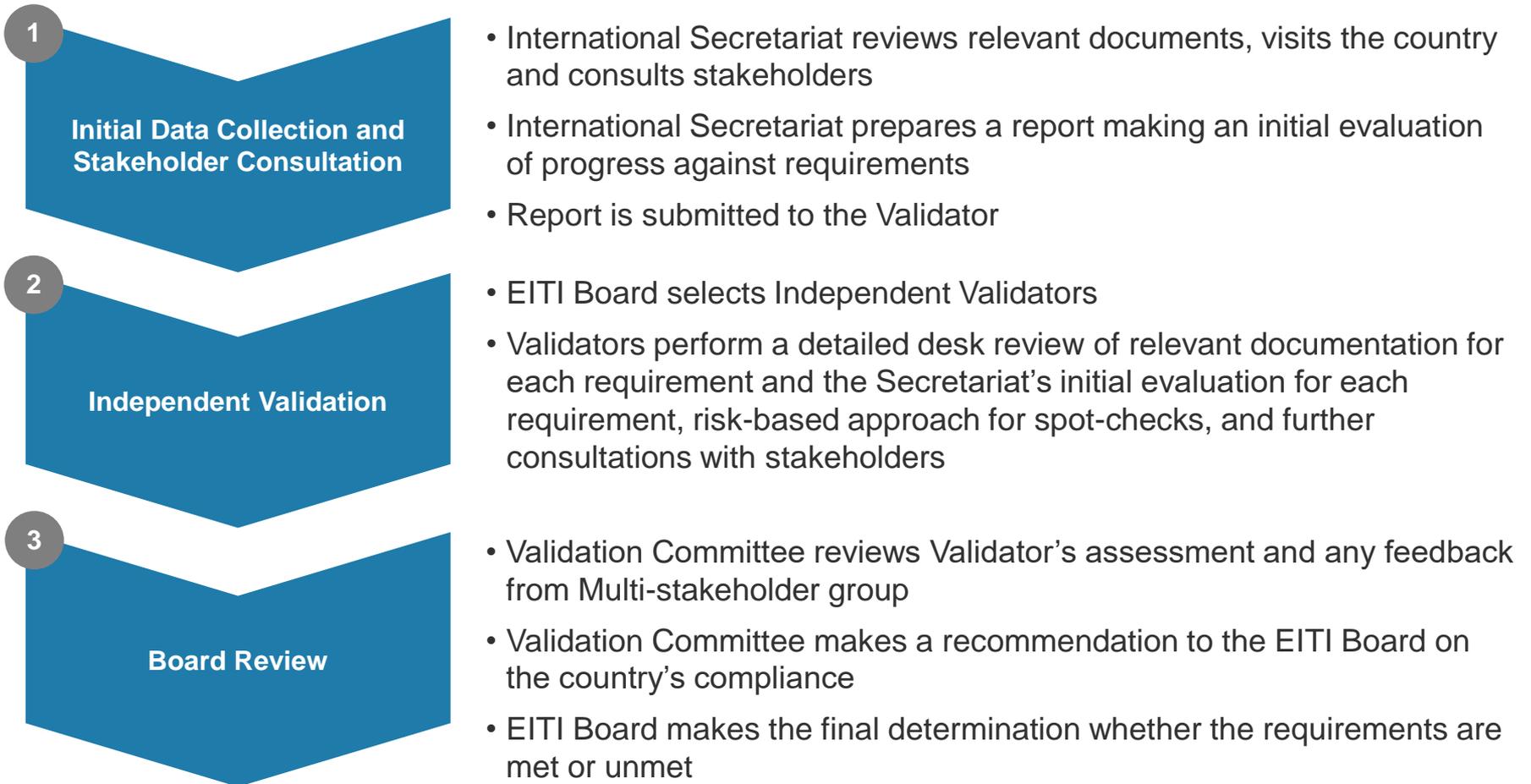
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Validation Overview and Updates

Validation Overview

For 2016, the EITI Board conducted a review of the Validation process and clarified guidance in three stages.



EITI Validation Indicators

18 Indicators for EITI Implementation from the EITI Validation Grid

Category	Indicator
Sign Up	<ol style="list-style-type: none">1. Has the government issued an unequivocal public statement of its intention to implement EITI?2. Has the government committed to work with civil society and companies on EITI implementation?3. Has the government appointed a senior individual to lead on EITI implementation?4. Has a fully costed work plan been published and made widely available, containing measurable targets, a timetable for implementation and an assessment of capacity constraints?
Preparation	<ol style="list-style-type: none">5. Has the government established a multi-stakeholder group to oversee EITI implementation?6. Is civil society engaged in the process?7. Are companies engaged in the process?8. Did the government remove any obstacles to EITI implementation?9. Have reporting templates been agreed?10. Is the multistakeholder committee content with the organization appointed to reconcile figures?11. Has the government ensured all companies will report?12. Has the government ensured that company reports are based on audited accounts to international standards?13. Has the government ensured that government reports are based on audited accounts to international standards?
Disclosure	<ol style="list-style-type: none">14. Were all material oil, gas, and mining payments by companies to government disclosed to the organization contracted to reconcile figures and produce the EITI report?15. Were all material oil, gas and mining revenues received by the government disclosed to the organization contracted to reconcile figures and produce the EITI report?16. Was the multistakeholder group content that the organization contracted to reconcile the company and government figures did so satisfactorily?17. Did the EITI report identify discrepancies and make recommendations for actions to be taken?
Dissemination	<ol style="list-style-type: none">18. Was the EITI report made publicly available in a way that was:<ol style="list-style-type: none">I. publicly accessibleII. comprehensive, andIII. comprehensible?

29 Countries are Currently Compliant with EITI

Country	Date Declared Compliant (Next Validation Deadline)		Country	Date Declared Compliant (Next Validation Deadline)	
Albania	April, 2013	<i>(October, 2016)</i>	Mongolia	October, 2010	<i>(January, 2016)</i>
Burkina Faso	February, 2013	<i>(October, 2016)</i>	Mozambique	October, 2012	<i>(July, 2016)</i>
Cameroon	October, 2013	<i>(October, 2017)</i>	Niger	March, 2011	<i>(January, 2016)</i>
Chad	October, 2104	<i>(October, 2017)</i>	Nigeria	March, 2011	<i>(January, 2016)</i>
Cote d'Ivoire	May, 2013	<i>(October, 2016)</i>	Norway	March, 2011	<i>(January, 2016)</i>
Dem. Rep. Congo	July, 2014	<i>(July, 2017)</i>	Peru	February, 2012	<i>(April, 2016)</i>
Ghana	October, 2010	<i>(October, 2015)</i>	Philippines	May, 2013	<i>(July, 2016)</i>
Guatemala	March, 2014	<i>(March, 2017)</i>	Rep. of Congo	February, 2013	<i>(October, 2016)</i>
Guinea	July, 2014	<i>(July, 2017)</i>	Sierra Leone	April, 2014	<i>(April, 2017)</i>
Indonesia	October, 2014	<i>(October, 2017)</i>	Tanzania	December, 2014	<i>(July, 2016)</i>
Iraq	December, 2012	<i>(July, 2016)</i>	Timor-Leste	July, 2010	<i>(October, 2015)</i>
Kazakhstan	October, 2013	<i>(October, 2016)</i>	Togo	May, 2013	<i>(October, 2016)</i>
Liberia	October, 2009	<i>(January, 2016)</i>	Trinidad & Tobago	January, 2015	<i>(January, 2018)</i>
Mali	August, 2011	<i>(April, 2016)</i>	Zambia	September, 2012	<i>(July, 2016)</i>
Mauritania	February, 2012	<i>(April, 2016)</i>			

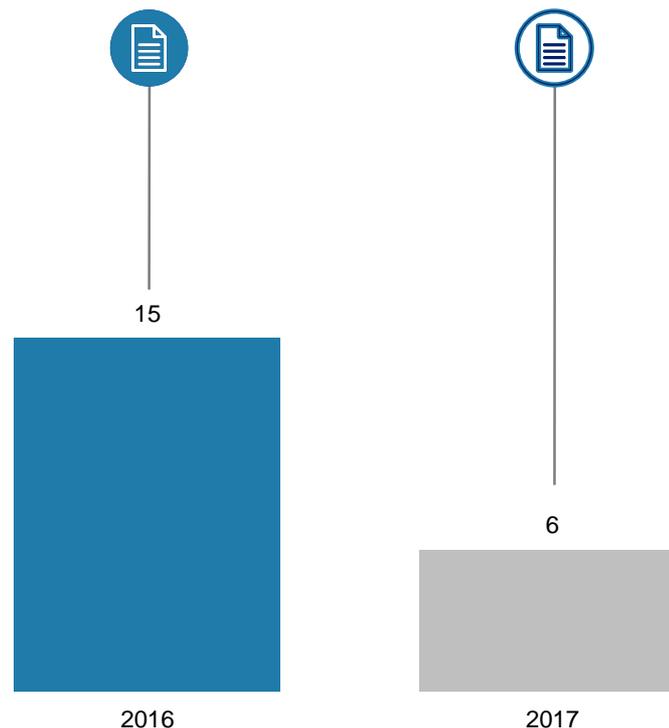
EITI Validation Schedule

21 Countries are Attempting Validation in 2016 and 2017.

- **2016** – Azerbaijan, Ghana, Kyrgyzstan, Liberia, Mali, Mauritania, Mongolia, Niger, Nigeria, Norway, Peru, Sao Tome & Principe, Solomon Islands, Tajikistan and Timor-Leste
- **2017** – Honduras, Iraq, Mozambique, Philippines, Tanzania and Zambia

The Board will confirm the schedule for the remaining countries at its next meeting in Astana.

Number of Validations 2016 - 2017



EITI Country Case Studies

Key points from validation of selected EITI countries

Country	Validation Summary	Areas for Improvement
Mongolia 	<ul style="list-style-type: none">In 2010, submitted first Validation, found to be “close to Compliant”Next Validation January 1, 2016	<p>Validation Indicators 11 - 13</p> <ul style="list-style-type: none">Has the government ensured all companies will report?Were company reports based on accounts audited to international standards?Were all government reports based on accounts audited to international standards?
Indonesia 	<ul style="list-style-type: none">In 2013, underwent first Validation – EITI Board granted meaningful progress, but not all requirements were metNext Validation October 15, 2017	<p>Validation Indicators 11 - 13</p> <ul style="list-style-type: none">Did all relevant companies and government entities report?Were all company reports based on accounts audited to international standards?Were all government reports based on accounts audited to international standards?
Zambia 	<ul style="list-style-type: none">In 2011, underwent first Validation – EITI Board granted meaningful progress, but not all requirements were metFollowing International Secretariat review, Zambia was declared EITI CompliantNext Validation July 1, 2016	<p>Validation Indicators 13 -15</p> <ul style="list-style-type: none">Were all government reports based on accounts audited to international standards?Were all payments to government disclosed by companies?Were all revenues from industry disclosed by the government?

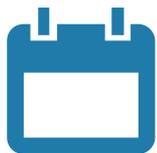
Notable changes in 2016 to EITI Validation



Countries will not face suspension if they show meaningful progress



The EITI Board is more open to deferrals



Many countries await validation processes due to a backlog and lack of funding

USEITI Reporting & Validation

USEITI Validation Outlook*



Status

- USEITI’s 2015 reported numbers are accurate with significant assurances; no unexplained variances
- Meets all but two** of the validation guide requirements, and exceeds requirements in some areas.
 - *all material oil, gas, and mining payments are published (Req 14), and all companies will report (Req 15)*

Environment

- In the past, other countries have been validated without full compliance with all indicators.
- No country analogous to the U.S. has undergone the validation process
- The new EITI Standard is recent and future validations will be conducted differently

14

Were all payments to government disclosed by companies?

- The government is not requiring companies to report
- Companies disclosed 81% of DOI material revenue
- Companies disclosed less than one percent of income taxes

15

Were all revenues from industry disclosed by the government?

- The government requires company permission to disclose tax revenue to the IA
- Government disclosed 100% of DOI material revenue
- Government disclosed less than one percent of income taxes

Validation Implications:

- Dodd-Frank 1504:
 - Passage of Dodd-Frank 1504 may constitute ‘meaningful progress’, but private companies will remain unaffected by this legislation
- Mainstreaming:
 - There is an opportunity for USEITI is ready to start piloting mainstreaming
- Beneficial Ownership
 - Beyond 2016, USEITI will have to start planning for satisfying requirements around Beneficial Ownership

Appendix – Detailed Country Case Studies

An examination of countries with similar reporting and reconciliation issues

Country Case Studies: Mongolia



EITI in Mongolia is currently “close to compliance”. Next Validation began January 1, 2016.

11

Has the government ensured all companies will report?

- The MSWG has set the threshold for EITI reporting at 200 million MNT in tax contributions but does not currently have a mechanism to ensure that all companies that meet this threshold comply with EITI reporting.

12

Were company reports are based on accounts audited to international standards?

- Completed company self-assessment forms clearly show that some companies reporting on the EITI in Mongolia are not audited to international standards, a finding confirmed by the Ministry of Finance.

13

Were all government reports based on accounts audited to international standards?

- Reporting guidelines from National Auditing Office are not being enforced across government departments
- Not all data on material payments or contributions at local government level are captured at national level.



Country Case Studies: Mongolia (Continued)



EITI in Mongolia is currently “close to compliance”. Next Validation began January 1, 2016.

14

Were all payments to government disclosed by companies?

- Not all material contributions are currently being captured, and it is generally recognized that companies underreport payments to local governments or report them as costs.

15

Were all revenues from industry disclosed by the government?

- The MSWG does not have an agreed definition of what constitutes material payments, but there is a frank acceptance on the part of the Mongolian government that donations and in-kind contributions are not being captured by the EITI reporting process.



Country Case Studies: Indonesia



Failed to report payments from all relevant entities and to audit reported information. Next Validation will be October 15, 2017.

11

Did all relevant companies and government entities report?

- Regulation requires that companies report but there are no sanctions for those who don't comply (considered optional)
- 20 Production Sharing Contract (PSC) partners were not required to report.

12

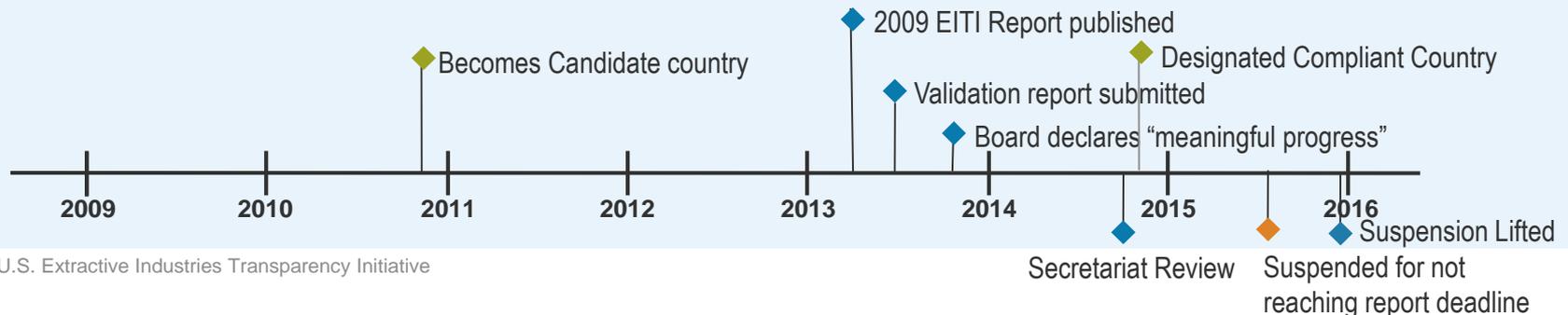
Were all company reports based on accounts audited to international standards?

- Although the legislation requiring company audit exists there is no evidence that the information provided in the reporting templates was subject to audit other than when companies confirmed that this occurred.

13

Were all government reports based on accounts audited to international standards?

- No evidence that specific information submitted by the government was subject to an audit.



Country Case Studies: Zambia



Failed to report all material payments including some tax payments and dividends. Next Validation will begin July 1, 2016.

13

Were all government reports based on accounts audited to international standards?

- No evidence that specific information submitted by the government was subject to an audit.

14

Were all payments to government disclosed by companies?

- Some tax payments were not reported.
- Sizable discrepancies between payments and revenues indicated that all payments were not disclosed.
- 88% of templates returned, most without supporting documentation.

15

Were all revenues from industry disclosed by the government?

- Sizable discrepancies between payments and revenues indicated that all revenues were not disclosed.
- Confusion about how ZCCM-IH (a hybrid government agency and extractive company) reported.



County Case Studies: Azerbaijan



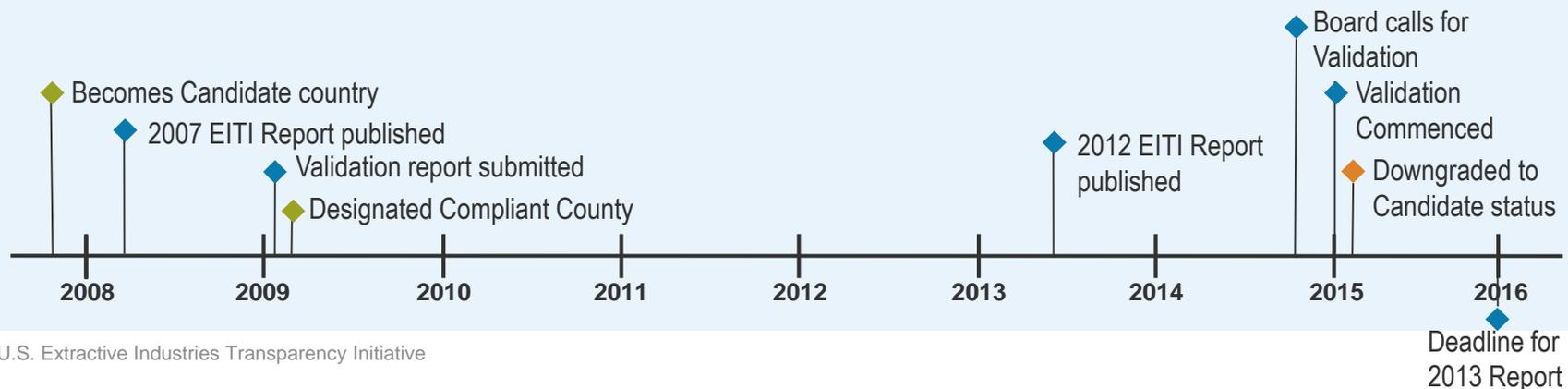
The new standard went into effect on January 1, 2015. Azerbaijan is the only country to have been evaluated under the new standard; it was downgraded to candidate status.

6

Is civil society engaged in the process?

CSO members could not:

- Access their bank accounts and register new EITI activity grants
- Speak freely about the EITI process without fear of reprisal or harassment
- Organize training, meetings and events related to the EITI process



Reporting Participation vs. Reporting Accuracy

A number of countries with higher reporting participation than the U.S. had lower levels of reporting accuracy. Mozambique, Tanzania, and Zambia failed to meet accuracy requirement 13.

13

Were all government reports based on accounts audited to international standards?

- No evidence that specific information submitted by the government was subject to an audit

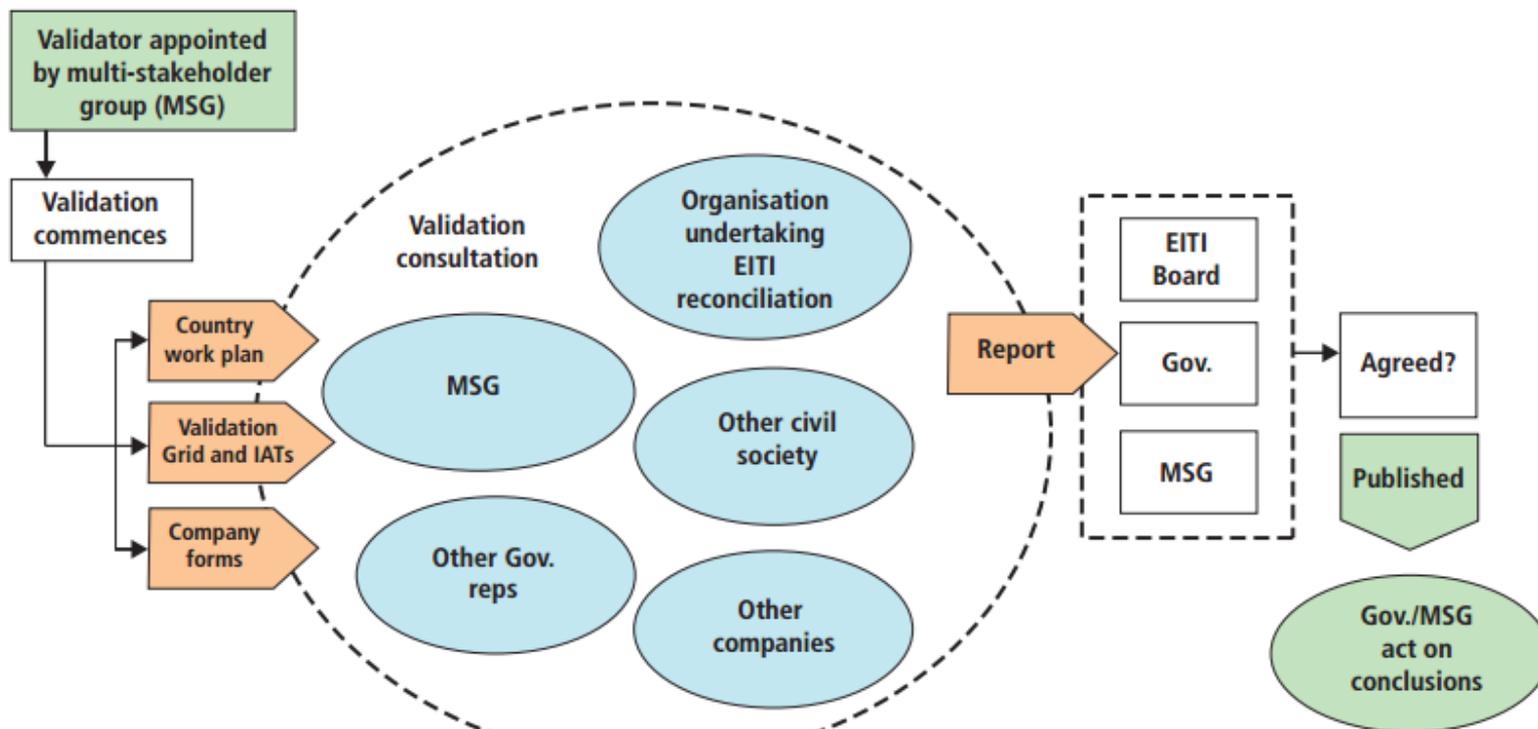
The board determined that all three countries had made “meaningful progress.”

Appendix – Updated Validation Process

Updated Validation Process

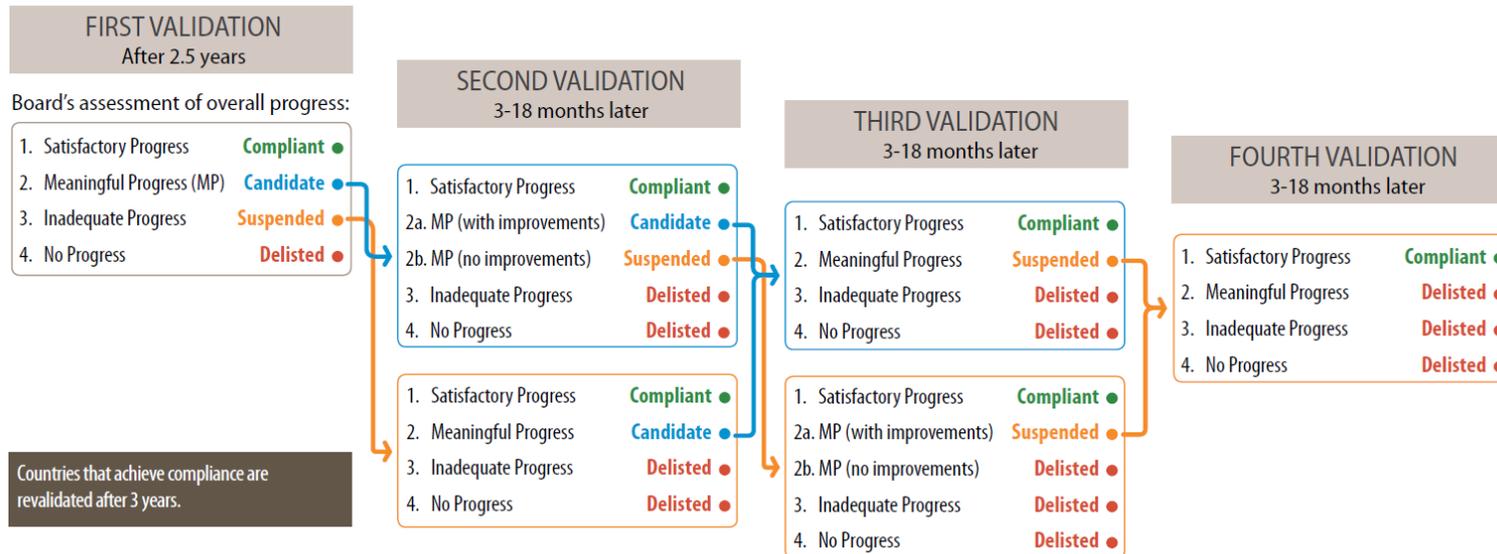
Validation combines data collection and stakeholder consultation undertaken by the EITI International Secretariat, independently reviewed by a Board-appointed Validator.

— Validation Flow Chart —



Updated Validation Process (Continued)

Consequences for compliance and non-compliance are outlined below:



Country Classifications

- Candidate** – implementing EITI, not yet compliant
- Compliant** – confirmed to have met all EITI requirements
- Suspended** – compliant / candidate status is temporarily suspended