EITI Validation
USEITI Validation Discussion

June 28, 2016
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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.

1. Initial Data Collection and Stakeholder Consultation
   - International Secretariat reviews relevant documents, visits the country and consults stakeholders
   - International Secretariat prepares a report making an initial evaluation of progress against requirements
   - Report is submitted to the Validator

2. Independent Validation
   - EITI Board selects Independent Validators
   - Validators perform a detailed desk review of relevant documentation for each requirement and the Secretariat’s initial evaluation for each requirement, risk-based approach for spot-checks, and further consultations with stakeholders

3. Board Review
   - Validation Committee reviews Validator’s assessment and any feedback from Multi-stakeholder group
   - Validation Committee makes a recommendation to the EITI Board on the country’s compliance
   - EITI Board makes the final determination whether the requirements are met or unmet

Source: https://eiti.org/validation
## EITI Validation Indicators

### 18 Indicators for EITI Implementation from the EITI Validation Grid

<table>
<thead>
<tr>
<th>Category</th>
<th>Indicator</th>
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</table>
| **Sign Up**| 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** | 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 an 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** | 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** | 18. Was the EITI report made publicly available in a way that was:  
I. publicly accessible  
II. comprehensive, and  
III. comprehensible? |

29 Countries are Currently Compliant with EITI

<table>
<thead>
<tr>
<th>Country</th>
<th>Date Declared Compliant (Next Validation Deadline)</th>
<th>Country</th>
<th>Date Declared Compliant (Next Validation Deadline)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>April, 2013 (October, 2016)</td>
<td>Mongolia</td>
<td>October, 2010 (January, 2016)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>October, 2014 (October, 2017)</td>
<td>Tanzania</td>
<td>December, 2014 (July, 2016)</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>October, 2013 (October, 2016)</td>
<td>Togo</td>
<td>May, 2013 (October, 2016)</td>
</tr>
<tr>
<td>Mali</td>
<td>August, 2011 (April, 2016)</td>
<td>Zambia</td>
<td>September, 2012 (July, 2016)</td>
</tr>
<tr>
<td>Mauritania</td>
<td>February, 2012 (April, 2016)</td>
<td></td>
<td></td>
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</tbody>
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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.
## EITI Country Case Studies

### Key points from validation of selected EITI countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Validation Summary</th>
<th>Areas for Improvement</th>
</tr>
</thead>
</table>
| **Mongolia** | - In 2010, submitted first Validation, found to be “close to Compliant”  
- Next Validation January 1, 2016 | Validation Indicators 11 - 13  
- Has the government ensured all companies will report?  
- Were company reports are based on accounts audited to international standards?  
- Were all government reports based on accounts audited to international standards? |
| **Indonesia** | - In 2013, underwent first Validation – EITI Board granted meaningful progress, but not all requirements were met  
- Next Validation October 15, 2017 | Validation Indicators 11 - 13  
- 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** | - In 2011, underwent first Validation – EITI Board granted meaningful progress, but not all requirements were met  
- Following International Secretariat review, Zambia was declared EITI Compliant  
- Next Validation July 1, 2016 | Validation Indicators 13 -15  
- 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.

<table>
<thead>
<tr>
<th>14</th>
<th>Were all payments to government disclosed by companies?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- The government is not requiring companies to report</td>
</tr>
<tr>
<td></td>
<td>- Companies disclosed 81% of DOI material revenue</td>
</tr>
<tr>
<td></td>
<td>- Companies disclosed less than one percent of income taxes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>15</th>
<th>Were all revenues from industry disclosed by the government?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- The government requires company permission to disclose tax revenue to the IA</td>
</tr>
<tr>
<td></td>
<td>- Government disclosed 100% of DOI material revenue</td>
</tr>
<tr>
<td></td>
<td>- Government disclosed less than one percent of income taxes</td>
</tr>
</tbody>
</table>

**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.

* Numbers based on 2015 USEITI Report, numbers for 2016 USEITI Report will differ

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.

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Timeline:
- 2009 EITI Report published
- 2009 Becomes Candidate country
- 2010 Validation report submitted
- 2011 Board declares “meaningful progress”
- 2012 Designated Compliant Country
- 2013 Secretariat Review
- 2014 Suspension Lifted
- 2015 Suspended for not reaching report deadline
- 2016
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.

Timeline:
- 2009: Becomes Candidate country
- 2008 EITI Report published
- 2010: Validation report submitted
- 2011: Board declares “meaningful progress”
- 2011 EITI Report published
- 2012: Secretariat Review
- 2013: Designated Compliant Country
- 2015: Deadline for next Validation
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.

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

Validator appointed by multi-stakeholder group (MSG)

Validation commences

Validation consultation

Organisation undertaking EITI reconciliation

Report

EITI Board

Gov.

MSG

Agreed?

Published

Gov./MSG act on conclusions

Country work plan

Validation Grid and IATs

Company forms

MSG

Other civil society

Other Gov. reps

Other companies

Updated Validation Process (Continued)

Consequences for compliance and non-compliance are outlined below:

**Candidate** – implementing EITI, not yet compliant

**Compliant** – confirmed to have met all EITI requirements

**Suspended** – compliant / candidate status is temporarily suspended

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**Country Classifications**

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