

Validation of Philippines
Draft Validation Report
Adam Smith International Independent Validator
24 May 2017

1. EXECUTIVE SUMMARY

On 2 June 2016, the EITI Board agreed that the Philippines' Validation under the 2016 EITI Standard would begin on 1 January 2017. This draft validation report follows on from a quality assurance review of the International Secretariat's initial assessment. The Validator for the most part agrees with the International Secretariat's preliminary assessment that the Philippines has met the requirements of the EITI Standard, there are two requirements that we suggest are downgraded. This review notes one case where the requirements is recommended to be downgraded from satisfactory to meaningful progress: 4.1) comprehensiveness.

2. BACKGROUND

The Republic of the Philippines is an island nation situated in the western Pacific Ocean, consisting of approximately 7,641 islands. The Philippine economy is the fifth-largest in ASEAN, with an estimated GDP of USD 292 billion in 2015. The country's location on the Pacific Ring of Fire means that as well as being prone to earthquakes and typhoons, there is an abundance of natural resources. The country holds the fifth-largest mineral reserves valued at USD 1.39 trillion (PH-EITI, 2016) (BusinessWorld, 2016), including the world's second largest deposits of gold and fifth-largest of nickel, with significant deposits of gold, silver, iron ore, nickel and copper (Mines and Geosciences Bureau, 2016).

The extractive industries accounted for only 0.75% of GDP, close to 4% of government revenue and 11.5% of exports in 2014 (PH-EITI, 2015). Nonetheless, the mining sector remains highly controversial, given a long history of social strife surrounding both large- and small-scale mining and strong anti-mining sentiment amongst certain segments of civil society. The Philippines became the world's largest nickel exporter (and largest nickel supplier to China) in 2015, following Indonesia's ban on unprocessed mineral exports in 2014 (Reuters, 2016).

The government of the Philippines committed to implement the EITI on 6 July 2012 by enacting Executive Order 79 on wide-ranging mining reforms including the EITI. An interim Multi-Stakeholder Group (MSG) was formed in August 2012 and a permanent MSG was appointed at the first EITI National Conference on 18-19 January 2013. The country was accepted as an EITI Candidate on 22 May 2013 at the EITI Board's meeting in Sydney.

EITI implementation in the Philippines has focused on large-scale metallic mining, oil and gas and coal, which means that the MSG's data collection work has covered a relatively small and well-structured sector, albeit overseen by two different regulators, the Mines and Geosciences Bureau (MGB) and the Department of Energy (DOE). The Philippines has produced three EITI Reports covering the fiscal years 2012 - 2014 and is currently preparing its fourth report covering fiscal year 2015.

In line with the Validation Guide, the International Secretariat carried out the first phase of validation—initial data collection, stakeholder consultations, and preparation of their initial evaluation of progress against the EITI requirements (the "Initial Assessment"). Adam Smith International (ASI) was appointed as the independent Validator to evaluate whether the Secretariat's work was carried out in accordance with the Validation Guide. ASI's principal responsibilities as Validator are to review and amend the Initial

Assessment, as needed, and to summarize its independent review in this Validation Report for submission to the Board through the Validation Committee.

1. Work Performed by the Independent Validator

The Secretariat's Initial Assessment was transmitted to ASI on 8th June, 2017. Our Validation Team undertook this phase of the Validation process through: (1) In-depth review and marking up of the EITI Assessment by each team member; (2) Detailed review and comments by the Multi-Stakeholder Specialist of Requirements 1 and the Civil Society Protocol; (3) Detailed review and comments by the Financial Specialist of Requirements 4, 5 and 6; (4) Consolidation of reviews and the production of this draft Validation Report, send to the International Secretariat on the 25th June.

2. Comments on the Limitations of the Validation

The Validator carefully reviewed the Secretariat's Initial Assessment and at this stage has two comments on the limitation of the validation process.

1.3 Civil Society Engagement. The Civil Society Protocol – which currently stands in a separate part of the EITI Standard- has been tacitly included within requirement 1.3, in terms of assessment regarding expression, operation, association, engagement and access to public decision-making. However, it is not clear how the EITI Board and the validator “apply” the tests of the Civil Society Protocol to requirement 1.3 (and how this impacts on the score for this requirement). More clarity needs to be provided here.

3.2 Production volumes and 3.3 Export volumes – the Standard does not require a strong burden of proof on the reliability of production volumes.

3. Comments on the International Secretariat's Initial Assessment

The initial data collection, stakeholder consultations, and drafting of the Initial Assessment were generally undertaken by the International Secretariat in accordance with the 2016 Validation Guide. The data collection took place across three phases. Firstly, from January – February 2017, a desk review of the available documentation relating to the country's compliance with the EITI Standard, including but not limited to:

- The EITI work plan and other planning documents such as budgets and communication plans;
- The multi-stakeholder group's Terms of Reference, and minutes from multi-stakeholder group meetings;
- EITI Reports, and supplementary information such as summary reports and scoping studies;
- Communication materials;
- Annual progress reports; and
- Any other information of relevance to Validation.

Secondly, a country visit, which took place on 20-28 February 2017. All meetings took place in Manila. The secretariat met with the multi-stakeholder group and its members, the IA and other key stakeholders, including stakeholder groups that are represented on, but not directly participating in, the multi-stakeholder group.

Finally, the International Secretariat prepared a report making an initial assessment of progress against requirements in accordance with the Validation Guide. The initial assessment did not include an overall assessment of compliance. The report was submitted to the Validator, with the National Coordinator (NC) also receiving a copy.

2. GENERAL COMMENTS

- **Progress in EITI Implementation**

The Philippines presents a uniquely dynamic case of EITI implementation, with its fast-paced, innovative and engaged MSG undertaking both strategic discussions linking the EITI to national priorities for the extractive sector as well as the technical detail of reporting. All three stakeholder groups have used the EITI to address local demands for information and identify areas for reform, above and beyond the minimum requirements of the EITI Standard. Thus, the Philippines has used EITI reporting to disclose mining, oil and gas contracts through an online resource contracts portal¹, to track implementation of extractive companies' Social Development and Management Programs (SDMPs), to monitor small-scale mining and to present geographically-disaggregated EITI data in a user-friendly way through a data portal². The MSG's engagement in formulating recommendations and actively following up on their implementation has ensured the EITI has had a tangible impact, particularly in terms of reform of government systems, from the first PH-EITI Report.

A key strength of EITI implementation has been strong engagement from all three stakeholder groups. Since the country became an EITI candidate in 2013, the government has supported the EITI through public statements, enabling legal backing by executive orders and funding for EITI. Representatives from agencies such as the Mines and Geosciences Bureau (MGB), the Department of Finance (DOF), the Bureau of Internal Revenue (BIR), the Department of the Interior and Local Government (DILG), the Union of Local Authorities of the Philippines (ULAP) and the Department of Energy (DOE) have actively contributed to the work of the MSG, provided data for PH-EITI Reports and supported embedding EITI reporting in government systems. Representatives from the mining, oil and gas industries have actively engaged in scoping, data collection and dissemination of EITI Reports, although companies in the coal sector have not matched this participation. Civil society members represent a broad cross-section of non-governmental actors, including statutory gender and geographical mixes, and there is ample evidence of active and frequent outreach and consultations with communities hosting extractive industries and other interested stakeholders. The MSG has met frequently – over 38 times in four years – and kept extensive records of its detailed discussions.

Having focused EITI implementation on large-scale metallic mining, oil and gas, and coal, the MSG's data collection work has covered a relatively small and well-structured sector, albeit overseen by two different regulators (the MGB and the DOE). In preparing its first EITI Report, covering 2012, the MSG elaborated a system of tax confidentiality waivers for reporting companies to sign allowing the BIR to disregard confidentiality provisions of the Tax Code and participate in EITI reporting. While company compliance with reporting and quality assurance procedures improved from the first to the third EITI Reports, the MSG has thus far proven unsuccessful in engaging the sole material coal company despite numerous different attempts at outreach. The non-participation of this company, accounting for 3.17% of total government

¹ <http://contracts.ph-eiti.org/>

² While technically hosted by Bantay Kita, the data portal draws on EITI and MGB data: <http://bkdataportal.weebly.com/>

extractives revenues means that all aspects of Requirement 4.1 have not been met, not achieving therefore Philippine's EITI Report for 2014, the broader objective of comprehensive disclosure of taxes and revenues through the government's full disclosure of revenues received and the MSG's transparency on gaps in company reporting.

Despite this weakness in the comprehensiveness of its reporting, the PH-EITI MSG and secretariat have actively followed up on recommendations from EITI Reports. Statutorily embedded in the Cabinet-level Mining Industry Coordinating Council (MICC), EITI has from the start operated as a diagnostic tool to inform the government's reform priorities, primarily in the mining sector under EO 79 of 6 July 2012. Within six months of publication of its first EITI Report in December 2014, the MSG had already followed up on recommendations related to arrears in central government transfers to Local Government Units, weaknesses in oversight by the National Commission on Indigenous Peoples (NCIP) and improvements in the management of mining licenses. PH-EITI's communication work is also highly impressive, contributing to awareness raising, dissemination and use of data amongst different audiences interested in the extractive industries.

- **Impact of EITI Implementation**

The PH-EITI Reports are comprehensible, actively promoted through varied channels (including print, online and through active outreach), publicly accessible and have tangibly contributed to public debate on the extractive industries in the Philippines. In the Secretariat's view, the Philippines has gone beyond the minimum requirements by developing online and interactive means of accessing EITI information as well as through active subnational outreach and dissemination. The three stakeholder groups have also actively contributed to dissemination of PH-EITI information in their bilateral interactions.

PH-EITI has published data in machine readable format and summaries of EITI Reports in accessible infographic format.

The MSG and the government have taken steps to act upon lessons learnt, to identify, investigate and address the causes of any discrepancies and weaknesses of the EITI process and to consider the recommendations for improvements from the IA. The Philippines has gone beyond the requirement given the MSG's formulation of its own recommendations and implementation of reforms starting with the first PH-EITI Report.

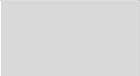
The MSG has reviewed progress and outcomes of implementation on a regular basis, including by publishing annual progress reports following broad consultations. The Philippines has gone beyond the requirement given the MSG's proactive outreach to give all stakeholders the opportunity to provide feedback on EITI implementation and its impact.

The Independent Validator's Assessment of Compliance

Figure 1 – Validator's assessment

EITI Requirements		LEVEL OF PROGRESS				
		No	Inadequate	Meaningful	Satisfactory	Beyond
Categories	Requirements					
MSG oversight	Government engagement (#1.1)				█	
	Industry engagement (#1.2)				█	
	Civil society engagement (#1.3)				█	
	MSG governance (#1.4)					█
	Work plan (#1.5)					█
Licenses and contracts	Legal framework (#2.1)					█
	License allocations (#2.2)				█ ←	█
	License register (#2.3)				█	
	Policy on contract disclosure (#2.4)					█
	Beneficial ownership (#2.5)	█	█	█	█	█
	State participation (#2.6)				█	
Monitoring production	Exploration data (#3.1)				█	
	Production data (#3.2)				█	
	Export data (#3.3)				█	
Revenue collection	Comprehensiveness (#4.1)			█ ←	█	
	In-kind revenues (#4.2)	█	█	█	█	█
	Barter agreements (#4.3)	█	█	█	█	█
	Transportation revenues (#4.4)	█	█	█	█	█
	SOE transactions (#4.5)				█	
	Direct subnational payments (#4.6)				█	
	Disaggregation (#4.7)				█	
	Data timeliness (#4.8)				█	
	Data quality (#4.9)				█	
Revenue allocation	Revenue management and expenditures (#5.1)					█
	Subnational transfers (#5.2)				█	
	Distribution of revenues (#5.3)	█	█	█	█	█
Socio-economic contribution	Social expenditures (#6.1)					█
	SOE quasi-fiscal expenditures (#6.2)	█	█	█	█	█
	Economic contribution (#6.3)				█	
Outcomes and impact	Public debate (#7.1)					█
	Data accessibility (#7.2)	█	█	█	█	█
	Follow up on recommendations (#7.3)					█
	Outcomes and impact of implementation (#7.4)					█

Legend to the assessment card

	The country has made no progress in addressing the requirement. The broader objective of the requirement is in no way fulfilled.
	The country has made inadequate progress in meeting the requirement. Significant elements of the requirement are outstanding and the broader objective of the requirement is far from being fulfilled.
	The country has made progress in meeting the requirement. Significant elements of the requirement are being implemented and the broader objective of the requirement is being fulfilled.
	The country is compliant with the EITI requirement.
	The country has gone beyond the requirement.
	This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.
	The MSG has demonstrated that this requirement is not applicable in the country.

3. DETAILED FINDINGS

This section highlights areas where the Validator disagrees with the findings of the Initial Assessment or requires further clarification.

2.2 License Allocations

The Initial Assessment Report on page 44 states that, “the Philippines has gone beyond the minimum requirements by providing commentary on the efficiency and effectiveness of systems and procedures for contract and license awards as encouraged by the EITI Standard.” However, this commentary is a short paragraph in the latest EITI report, and must be taken in the context of stakeholder views that point to unclear processes for engaging local communities, rumours of favoritism, and the view that the licensing and permitting process is generally slow, with the need for a clearer and more time-bound approval system. These criticisms are (unsurprisingly) not mentioned in the EITI report. For this reason, we have shifted the score from Beyond to Satisfactory.

2.6 State Participation

Having discussed with the International Secretariat and taken on board comments from the MSG, we now agree with the initial assessment that this requirement shows satisfactory progress.

4.1 Comprehensive disclosure of taxes and revenues:

We recommend that requirement 4.1 is downgraded to meaningful progress.

The materiality threshold calculation and methodology was not clearly defined nor thoroughly disclosed by the Independent Administrator in the PH EITI FY2014 Report. It is recommended that the PH Initial Assessment Report address this deficiency or further comment on this matter. What follows is a detailed examination of the issue.

The MSG indicated on page 260 that the minimum revenue disclosure threshold for year 2014 would be 2% and it “... applied to the total revenues collected from the participating entities per industry as reported by the different government agencies.” It is not clear to us if 2% materiality threshold procedure, as indicated on page 260, was applied by industry, company, government agency (national and local), project or any other criteria. The report on page 260 very generally states that similarly to the second PH EITI report, the “...determination of materiality level for the third PH-EITI report was done on a per industry basis which provided for a uniform monetary threshold and a greater focus on key revenue streams...”.

The absence of a detailed materiality monetary distinction between total mining and oil and gas revenues in Philippines EITI Report could produce a misinformed conclusion of 2014 overall extractive industries transparency exercise.

According to the EITI Standard 2016, the comprehensiveness of information provided by EITI Reports, as well as the disclosure of key information to the public, starting with the materiality definition agreed by the MSG, is a crucial aspect of transparent reporting.

5.2 Sub-national transfers:

Having considered additional information from the International Secretariat and comments from MSG, regarding sub-national transfers, our assessment is that requirement 5.2 has achieved satisfactory progress.

6.1 Social expenditures:

Having considered additional information from the International Secretariat and comments from MSG, regarding social expenditures, our assessment is that requirement 6.1 has achieved a beyond level of progress.

7.1 Public Debate

Having discussed with the International Secretariat and taken on board comments from the MSG, we now agree with the initial assessment that this requirement goes beyond EITI requirements.

7.4 Outcomes and Impact of implementation

Having discussed with the International Secretariat and taken on board comments from the MSG, we now agree with the initial assessment that this requirement goes beyond EITI requirements.

4. RECOMMENDATIONS

The following are the Secretariat's overarching recommendations for improving EITI implementation in Philippines, with the Validation Team's amendments, queries and additions are in italics.

4.1 To further strengthen implementation, each constituency is encouraged to ensure that their representatives' attendance at MSG meetings is consistent and at sufficiently high level to allow the MSG to take decisions and follow up on agreed matters.

We also recommend (as amends to the text on page 68 of the Initial Assessment):

"In order to strengthen implementation, PH-EITI should continue its active efforts to encourage and facilitate company participation, including through mainstreaming. Future PH-EITI Reports *should* contain a *detailed* calculation of total government revenue as well as the materiality of any non-participating companies, as this information is currently *unclear in* the report. The IA is also advised to ensure that future calculations of % company participation is done with reference to total government revenues *in the reporting templates* to avoid misunderstandings about the coverage of reconciliation."

4.2 To *protect and* strengthen implementation *of the work plan*, the MSG could consider *funding EITI through* the government *budget*.

4.3 PH-EITI should continue to work with the MGB and DOE on the reforms underway with regards to online cadastres, and verify that these cadastres include the date of application for any licenses and contracts that are issued in the future.

4.4 Building on the work related to contract transparency so far, PH-EITI could consider publishing the remaining contracts pertaining to oil and gas, mining and coal companies operating in the country, and MoAs with IPs. The PH-EITI could also summarise the key terms of the contracts for better public consumption.

4.5 It is recommended that PH-EITI considers piloting beneficial ownership reporting in the forthcoming EITI Report in order to increase awareness of beneficial ownership transparency and pilot beneficial

ownership definitions and thresholds. PH-EITI may also wish to conduct broader outreach to the companies on the objectives of beneficial ownership transparency, as well as hold consultations with government agencies on how to make such disclosures mandatory.

Does piloting here refer to piloting for all extractive industry sectors (oil & gas and mining), or does it refer to piloting for a specific sector, or piloting intended in another way?

4.6 PH-EITI *should* consider studying the efficiency of operations of state-owned companies, particularly in relation to the management of SOEs' stakes in extractives projects.

4.7 PH-EITI should work with DOE to ensure that up to date production values for coal are disclosed.

4.8 PH-EITI should continue to work with MGB on ensuring that the recommendations related to monitoring and accuracy of production data are considered and followed up. PH-EITI may wish to explore opportunities to improve the reporting and monitoring of export data.

4.9 In order to strengthen implementation, PH-EITI should continue its active efforts to encourage and facilitate company participation, including through mainstreaming.

4.10 PH-EITI is encouraged to work with government agencies on the reforms related to LGU tax records.

4.11 Given the low level of materiality, PH-EITI could reconsider the costs and benefits of reconciling subnational flows although it is noted that reconciliation is as much a means of building capacity and outreach to LGUs. PH-EITI is also encouraged to continue its strategic engagement with the Autonomous Region of Muslim Mindanao (ARMM) with a view to including them in future reports.

4.12 In light of the stakeholder support for project level reporting, PH-EITI is encouraged to consider disaggregating data by project. PH-EITI may wish to proceed to project-level EITI reporting ahead of the deadline for all EITI Reports covering fiscal periods ending on or after 31 December 2018, agreed by the EITI Board at its 36th meeting in Bogotá.

4.13 In order to strengthen implementation, it is recommended that PH-EITI strengthens its efforts to publish more up to date EITI reports in order to ensure that the data is more relevant and useful to the public.

4.14 PH-EITI could consider continuing to work on transparency related to IP royalties, including disclosure of all royalty transfers and other benefits to IPs, disclosure of community development plans for use of royalties, and tracking of the implementation of such plans.

4.15 In order to strengthen implementation, it is recommended that PH-EITI *sufficiently disclose the materiality threshold for sub-national transfers* and work with DBM on making the calculations of the revenue share publicly accessible on a routine basis.

4.16 In order to strengthen implementation, PH-EITI could consider looking into tracking the spending of extractive industry revenue earmarked for specific purposes.

4.17 PH-EITI is encouraged to work with companies and MGB on the follow up on recommendations related to SDMP.

4.18 It is recommended for future Philippine's EITI Reports, that the materiality threshold calculation and methodology used is clearly defined and thoroughly disclosed by the Independent Administrator in the country report.

4.19 To further strengthen implementation, the government is encouraged to strengthen the MICC's role in following up on EITI recommendations to further link PH-EITI to ongoing reforms and sustain the momentum of EITI evidence-based reforms.

4.20 To further strengthen implementation, the MSG may wish to consider undertaking an impact assessment, with a view to identifying tangible impacts to local communities and other stakeholders in order to determine the extent to which the EITI has contributed to improving public financial management and governance of the mining, oil and gas sectors.

4.21 The definition of material for social expenditures needs to be clearly disclosed by the MSG for future EITI reports.
