

Validation of Ethiopia
Draft Validation Report
Cowater-Sogema Independent Validator
15th October 2018

1. EXECUTIVE SUMMARY

On 25 October 2016, the Board agreed that Ethiopia's Validation under the 2016 EITI Standard would commence on 1 April 2018. This report presents the findings and initial assessment of the International Secretariat's data gathering and stakeholder consultations. The International Secretariat has followed the Validation Procedures and applied the Validation Guide in assessing Ethiopia's progress with the EITI Standard. The Secretariat's preliminary assessment is that 15 of the requirements of the EITI Standard have not been fully addressed in Ethiopia. Two of these are unmet with inadequate progress. The recommendations and suggested corrective actions identified through this process relate in particular to the environment for civil society engagement, MSG oversight, legal framework, license registers, state participation, direct subnational payments and transfers as well as the comprehensiveness and reliability of reporting.

This draft validation report follows on from a quality assurance review of the International Secretariat's initial assessment. The validator recommends two scoring changes, one upgrading from meaningful progress to satisfactory progress, whilst one downgrading from satisfactory to meaningful.

2. BACKGROUND

Ethiopia is not an economy reliant on the extractive industries, which accounted for only 0.8% of GDP, around 15% of exports and 0.7% of government revenues in 2015-16.¹ Yet the government plans to expand the mining sector's contribution to 10% of GDP, between USD100m and USD 500m in tax revenues and USD 1.5bn in export earnings by 2024, under its five-year Growth and Transformation Plan (GTP).² Ethiopia accounted for around 3% of global tantalum mine production in 2014 according to the US Geological Survey³ and was the world's 36th-largest producer of gold in 2016 according to the World Gold Council.⁴ The country is also a significant producer of cement, crushed stone and gemstones and holds deposits of coal, tantalum, iron, nickel, manganese, oil and gas, potash and phosphates.⁵ There is extensive artisanal and small-scale mining (ASM) in Ethiopia, focused on gold, tantalum and gemstones. Estimates of employment in ASM range

¹ African Development Bank (May 2017), 'African Economic Outlook: Ethiopia', accessed [here](#) in March 2018, p.4, and EEITI (April 2017), , Ethiopia EITI Report 2015/16, accessed [here](#) in May 2018.

² Center for Social Responsibility in Mining (May 2016), 'Prospects for inclusive development from oil, gas and mining in Ethiopia', accessed [here](#) in March 2018, p.1.

³ US Geological Survey (August 2017), 'The minerals industry of Ethiopia in 2014', accessed [here](#) in March 2018, p.1.

⁴ World Gold Council (2017), 'Gold mining map', accessed [here](#) in March 2018.

⁵ Ministry of Mines, Petroleum and Natural Gas (June 2017), 'The mineral industry and investment opportunities in Ethiopia', accessed [here](#) in March 2018; and Federal Democratic Republic of Ethiopia (2014), 'Prospectus for USD 1bn sovereign Eurobond issue, 2014', accessed [here](#) in March 2018, p.46.

from around 300k people⁶ to 1m.⁷ There is active exploration for oil and gas, with estimated reserves of 4.7tn cu ft of liquid natural gas and 13.6 million barrels of associated liquids in fields of the Ogaden basin, discovered in the 1970s, with first production expected in late 2018.⁸

According to the 2017 Resource Governance Index from the Natural Resource Governance Institute (NRGI), Ethiopia scored 40 out of 100 points and ranked 57th of 89 countries assessed.⁹ Ethiopia was ranked 17th of Sub-Saharan African countries assessed in the index, revealing weak resource governance scores comparing to the world's average. According to the index, Ethiopia showed good results in tax transparency, although its results in enabling environment, licensing, revenue management and value realisation were poor and its performance on state-owned enterprises was considered failing.

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”). CowaterSogema was appointed as the independent Validator to evaluate whether the Secretariat's work was carried out in accordance with the Validation Guide. CowaterSogema'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 CowaterSogema on October 3rd 2018. 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, sent to the International Secretariat on the October 15th 2018.

2. Comments on the Limitations of the Validation

The Validator carefully reviewed the Secretariat's Initial Assessment and at this stage has no comments on the limitation of the validation process.

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

⁶ EITI (March 2016), 'Ethiopia: Collecting data where little was previously available', accessed [here](#) in March 2018.

⁷ Center for Social Responsibility in Mining (May 2016), 'Prospects for inclusive development from oil, gas and mining in Ethiopia', accessed [here](#) in March 2018, p.2.

⁸ World Bank (November 2016), 'Project information document: Ethiopia EITI (Grant II)', accessed [here](#) in March 2018.

⁹ NRGI (2017) Resource Governance Index: Ethiopia, accessed [here](#) in March 2018.

collection took place across three phases. Firstly, 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.

A country visit took place on 13-18 May. All meetings took place in Addis Ababa. The secretariat met with the multi-stakeholder group and its members, the Independent Administrator and other key stakeholders, including stakeholder groups that are represented on, but not directly participating in, the multi-stakeholder group. In addition to meeting with the MSG as a group, the Secretariat met with its constituent parts (government, companies and civil society) either individually or in constituency groups, with appropriate protocols to ensure that stakeholders are able to freely express their views and that requests for confidentiality are respected.

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 government of the Federal Democratic Republic of Ethiopia (FDRE) committed to implement the EITI in February 2009 through a televised address and at the EITI's 4th Global Conference in Doha. An interim multi-stakeholder group (MSG), the EEITI National Steering Committee (ENSC), was formed in July 2009. After several deferments of the EITI Board's decision on Ethiopia's 2009 EITI Candidature application, the government restructured the ENSC to the Multi-Stakeholder Board (MSB) and re-applied in October 2013. The country was accepted as an EITI Candidate in March 2014 at the EITI Board's meeting in Oslo.

Ethiopia has published a total of three EITI Reports covering three fiscal years (2013-16), which are available on the Ethiopia page on the global EITI website.¹⁰ While the country had published an extractives revenue reconciliation report (covering 2009-10) in February 2013 prior to its acceptance as an EITI Candidate¹¹, it published its first EITI Report (covering 2013-14) in February 2016. Having missed the July 2017 deadline for publication of its 2014-15 EITI Report, Ethiopia was temporarily suspended by the EITI Board in September

¹⁰ Ethiopia page on the EITI website, accessed [here](#) in March 2018.

¹¹ Ethiopia EITI (January 2018), '2014-15 EEITI Report', accessed [here](#) in March 2018, p.5.

2017.¹² The suspension was lifted following publication of the second EITI Report (2014-15) in January 2018. The third EITI Report (covering 2015-16) was published in March 2018. The reports cover both the oil, gas and mining sectors.

- **Impact of EITI Implementation**

EITI reporting in Ethiopia has also sought to cover the artisanal and small-scale mining sector (ASM), and a dedicated report on ASM and its contribution to the economy was published in April 2016. Comprehensive disclosures of revenues collected at the regional level has been identified as a challenge due to administrative obstacles.

Ethiopia's EITI implementation has targeted some issues of national importance, such as artisanal and small-scale mining, social expenditures and mining licensing by different tiers of government. Of crucial importance in a country with a population that is 80% rural¹³, EEITI has focused on outreach and dissemination at the local level, in *woredas* hosting mines and quarries.

The strong country ownership on the part of the government has not been matched by an equivalent engagement from industry or civil society. The lack of clear coordination mechanisms linking MSG representatives to their constituencies has led to a disconnect between the two. Civil society representation on the MSG has tended to follow EEITI activities rather than be a real driver of all aspects of implementation, from oversight of EITI reporting to dissemination and outreach.

Broader constraints on civil society operation in Ethiopia have also played a role in weakening the broader constituency's engagement in EITI implementation. Assiduously applied legal constraints introduced in 2009 bar foreign-funded civil society organisations (CSOs) from engaging in the advocacy necessary for successful EITI implementation. Amidst reforms announced since Prime Minister Abiy Ahmed's appointment in April 2018, there is a need for Ethiopia to more effectively carve out a space to enable interested civil society organisations to fully engage in all aspects of EITI implementation. Such dedicated EITI legislation had been pledged as part of Ethiopia EITI Candidature application in 2013.¹⁴

The EEITI's focus on reconciliation, licensing and social expenditures has not been matched by an equivalent attention to detail in areas such as state participation or subnational transfers, despite public interest in such issues. There are clear opportunities for the EITI to provide much-needed intermediation between civil society, industry and the government on pressing issues of concern both to local communities and policy-makers in the Federal Government.

Ethiopia has been a pioneer in aspects of its EITI implementation, from its subnational outreach and dissemination to extending the scope of EITI reporting to ASM. The government, through the Ministry of Mines, Petroleum and National Gas, has engaged actively in international EITI events and played a regional role both in East Africa and on the wider continent. Refinements to its disclosure practices and a wholesale

¹² EITI (September 2017), 'The Board suspends Ethiopia for not meeting the publication deadline of their 2014/2015 Report', accessed [here](#) in March 2018.

¹³ World Bank, Rural population data, accessed [here](#) in May 2018.

¹⁴ EITI (2014), Secretariat assessment candidature of Ethiopia EITI, accessed [here](#) June 2018.

strengthening of its multi-stakeholder oversight should enable Ethiopia to consolidate transparency gains and leverage them for tangible improvements in accountability in its management of natural resource governance.

The Independent Validator's Assessment of Compliance

Figure 1 – Validator's assessment

EITI Requirements		LEVEL OF PROGRESS				
		No progress	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	Distribution of revenues (#5.1)				█	
	Subnational transfers (#5.2)			█		
	Revenue management and expenditures (#5.3)	█				
Socio-economic contribution	Mandatory 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.

The validator disagrees with two of the scores provided in the initial assessment.

2.1. – suggest score is revised from meaningful to satisfactory. Although there appear to be weaknesses to the reporting of planned and ongoing reforms, the validation guide states that *‘discussing reforms is encouraged but not required, thus should not be considered in assessing compliance’*.

2.2. – suggest score is revised from satisfactory to meaningful, given the substantial gaps in information provided on the transfer of licenses.

4. RECOMMENDATIONS

While the following report includes recommendations for specific improvements the MSG may wish to consider implementing, the following is a list of strategic suggested corrective actions that should help Ethiopia make greater use of the EITI as an instrument to support reforms.

- In accordance with Requirement 1.3.b, the government should ensure an enabling environment for civil society to freely express opinions with regards to natural resource governance. In accordance with Requirements 1.3.c and d, the government must ensure that there are no obstacles to civil society participation in the EITI process and must refrain from actions which result in narrowing or restricting public debate in relation to implementation of the EITI. In accordance with Requirement 1.3.a, civil society must demonstrate that it is fully, actively and effectively engaged in the EITI process.
- In accordance with Requirement 1.4, the MSG should ensure that each constituency has clear procedures for the selection of MSG members and channels of communication between the MSB representatives and their constituencies. The MSG could task each stakeholder group to clarify their internal nominations and representation procedures to improve the transparency and participation in the process. The MSG should also agree a process to ensure greater accountability of MSG representatives to the constituencies. This should include establishing mechanisms of consultation and reporting between MSG representatives and their wider constituencies.
- In accordance with Requirement 2.2, Ethiopia is required to publicly disclose information related to the award or transfer of mining, oil and gas licenses pertaining to companies covered in the EITI Report. This information should include the number of mining, oil and gas licenses awarded and transferred in the year under review, a description of the award and transfer procedures, including specific technical and financial criteria assessed, and any non-trivial deviations from statutory procedures in practice.
- In accordance with Requirement 2.3, Ethiopia is required to maintain a publicly available register or cadastre system(s), including comprehensive information on all active oil, gas and mining licenses. In the interim, the MSG should ensure that information set out under Requirement 2.3.b be publicly-accessible for all mining, oil and gas licenses held by companies included in the scope of EITI reporting.
- In accordance with Requirement 2.4, Ethiopia should ensure that the government’s policy on contract disclosure is publicly clarified for both mining contracts and oil and gas PSAs. Where applicable, Ethiopia should provide an overview of the contracts and licenses that are publicly

available, and include a reference or link to the location where these are published or guidance on how to access them.

- In accordance with Requirement 2.6, Ethiopia should disclose a comprehensive list of state participations in the extractive industries, including the terms associated with state equity, and publicly clarify the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), e.g., the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and third-party financing. This should include a comprehensive overview of loans and guarantees extended by the state or SOEs to any extractives company.
- In accordance with Requirement 3.3, Ethiopia should ensure that the export volumes and values of each mineral commodity exported in the year(s) under review are publicly available.
- In accordance with Requirement 4.1, Ethiopia should ensure that future EITI reporting clearly explain all unreconciled discrepancy and provide a clear assessment of whether discrepancies materially affect the comprehensiveness of the reconciliation. In addition, Ethiopia should ensure that full unilateral government disclosure of material revenues, including from non-material companies, is provided disaggregated per material revenue stream.
- In accordance with Requirement 4.5, Ethiopia should ensure that all material company payments to SOEs and all transactions between SOEs and government entities be comprehensively disclosed and reconciled.
- In accordance with Requirement 4.6, Ethiopia should establish whether direct subnational payments, within the scope of the agreed benefit streams, are material ahead of future EITI reporting. Where material, the MSG is required to ensure that reconciled information on company payments to subnational government entities and the receipt of these payments be publicly accessible.
- In accordance with Requirement 4.9.a, the EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. In accordance with requirement 4.9.b.iii and the standard Terms of Reference for the Independent Administrator agreed by the EITI Board, the MSG and Independent Administrator should:
 - a. examine the audit and assurance procedures in companies and government entities participating in the EITI reporting process, and based on this examination, agree what information participating companies and government entities are required to provide to the Independent Administrator in order to assure the credibility of the data in accordance with Requirement 4.9. The Independent Administrator should exercise judgement and apply appropriate international professional standards in developing a procedure that provide a sufficient basis for a comprehensive and reliable EITI Report. The Independent Administrator should employ his/her professional judgement to determine the extent to which reliance can be placed on the existing controls and audit frameworks of the companies and governments. The Independent Administrator's inception report should document the options considered and the rationale for the assurances to be provided.
 - b. ensure that the Independent Administrator provides an assessment of comprehensiveness and reliability of the (financial) data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided.
 - c. ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness and reliability of the report.

- In accordance with Requirement 5.2, Ethiopia is required to ensure that material subnational transfers of extractives revenues are publicly disclosed, when such transfers are mandated by a national constitution, statute or other revenue sharing mechanism. Ethiopia should also disclose any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount transferred between the central government and each relevant subnational entity. Ethiopia may wish to consider whether publishing the detailed calculations of subnational royalty transfers as a means of achieving this objective. Ethiopia is encouraged to reconcile subnational extractives transfers.
- In accordance with Requirement 6.1, Ethiopia should ensure that information on mandatory social expenditures, clearly disaggregated between cash and in-kind and by non-government beneficiary, is publicly accessible.
- In accordance with Requirement 6.2, Ethiopia should undertake a comprehensive review of all expenditures undertaken by extractives SOEs that could be considered quasi-fiscal. Ethiopia should develop a reporting process for quasi-fiscal expenditures with a view to achieving a level of transparency commensurate with other payments and revenue streams.
- In accordance with Requirement 7.4, the MSB should annually assesses and document progress made by Ethiopia against the EITI requirements or recommendations from the EITI Report.
