

YEITI

Yemen Extractive Industries Transparency Initiative



VALIDATION REPORT©

Validation of the Extractive Industries Transparency Initiative (EITI) in Yemen

YEITI Council

coffey  **international development**
SPECIALISTS IN DEVELOPING COMMUNITIES

In association with

PKF

Accountants &
business advisers

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ABBREVIATIONS AND ACRONYMS

COCA	Central Organization for Control and Auditing
CSO	Civil Society Organization
EITI	Extractive Industries Transparency Initiative
IAT	Indicator Assessment Tool
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
ISA	International Standards on Auditing
HRITC	Human Rights Information and Training Centre, an NGO
JV	Joint Venture
LNG	Liquid Natural Gas
MDTF	EITI Multi-Donor Trust Fund, administered by the World Bank
MOM	Yemen Ministry of Oil and Minerals
MOPIC	Yemen Ministry of Planning and International Cooperation
MOU	Memorandum of Understanding
MSWG	Multi-Stakeholder Working Group
NGO	Non-Governmental Organization
OMV	An Austria-domiciled oil company with operations in Yemen
PSA	Production Sharing Agreement
TOR	Terms of Reference
SAI	Supreme Audit Institution
SNACC	Supreme National Authority on Combating Corruption
YEC	Yemen EITI Council, a multi-stakeholder working group
YEITI	Yemen EITI
YICOM	Yemen Corporation for Investment in Oil and Minerals
YIDD	Yemen Institute for Development and Democracy, a CSO
YOGC	Yemen Oil and Gas Corporation

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SECTION 1: INTRODUCTION

Validation of the Extractive Industries Transparency Initiative in Yemen

SECTION 1: INTRODUCTION

1 FOREWORD

This is the report of the 2011 Validation of the Extractive Industry Transparency Initiative (EITI) in Yemen. This was the first EITI Validation to be undertaken in the Middle East. It was performed by a consortium led by Coffey International Development, in association with the International Project Group of PKF (UK).

The report is structured as follows:

- This section introduces the report with a summary of the EITI Validation process, the importance of the extractive industries to Yemen, and EITI implementation in Yemen.
- Section 2 describes the Validation methodology and process.
- Section 3 sets out progress against the Yemen EITI work plan.
- Section 4 presents the Validator's assessment of progress against the EITI Validation Grid and supporting Indicator Assessment Tools found in the **EITI Rules** publication.
- Section 5 summarizes company implementation of the EITI in Yemen.
- Section 6 presents the Validator's overall assessment.
- Section 7 provides the Validator's recommendations for future implementation of the EITI in Yemen.

The report contains three Appendices. Appendix 1 provides a completed Validation Grid. Appendix 2 presents the Company Self-Assessment forms provided to the Validator. Appendix 3 lists the stakeholders consulted in undertaking the Validation.

2 EITI VALIDATION

Validation is an essential element of the EITI process, and is central to the Initiative's status as an international standard. Its objective is to provide an independent assessment of the progress achieved by a nation in implementing the EITI and what measures are required to make better and faster progress. For Candidate Countries¹, Validation should measure progress in EITI implementation. Candidate countries wishing to become EITI Compliant must undergo the Validation process. For countries that have fully implemented EITI (Compliant Countries²), Validation will serve to provide an assessment of their ongoing fulfilment of all the EITI Criteria.

Yemen obtained EITI Candidate status on 27 September 2007.

3 THE ROLE OF EXTRACTIVE INDUSTRIES IN YEMEN

Oil remains the main extractive industry in Yemen, although production has been declining since 2001. It accounts for 25 percent of Yemen's GDP and 70 percent of government revenue. Yemen currently has twelve oil-producing blocks and in 2009, produced 283,775 barrels per day. The following table shows the major producers and the percentages of national production for which they accounted in 2009.

¹ Candidate countries are those who have signed up to implement EITI and met all four indicators in the sign up stage of the Validation Grid: (1) committing to implement EITI; (2) committing to work with civil society and the private sector; (3) appointing an individual to lead implementation; and (4) producing a Work Plan that has been agreed with stakeholders. There are currently 28 Candidate countries, including Yemen.

² Compliant countries have fully implemented EITI. They have met all the indicators in the Validation grid, including the publication and distribution of an EITI Report. There are currently five Compliant countries.

Table 1: Major operators in Yemen and the percentage of national production they represent

Operator & number(s) assigned to major block(s)	Domicile of major shareholder(s)	Percentage of national production
Nexen, 14 and 51	Canada	33
Total, 10	France	18
Safer, 18	Yemen	17
Jannah Hunt, 5	US, Yemen	15
Remaining seven blocks		17
Total		100

Prior to 2009, gas in Yemen was mostly re-injected or flared. This is still mostly the case, but starting in February 2009, gas from Safer has been piped to the Yemen LNG plant on the south coast of the country. The plant cost US\$4.5 billion to build, with Total as the major shareholder. The gas piped to the plant (and mainly shipped to foreign buyers) represents the energy equivalent of all the oil now produced in the country. Within the next few years, revenues from gas exported by this one plant to the state will come to represent about half of the value that revenues from oil now represent.

Yemen hopes that it can further develop its gas resources in order to mitigate the economic impact of declining oil production.

Yemen also has a small mining industry, with one zinc mine, one limestone mine and one iron mine holding exploitation licenses. Exploration is also underway for gold and copper. No mine in the country is producing or paying revenue, according to an interview with the General Manager of the Ministry of Finance's Department of Oil and Mineral Revenues. The minerals sector was not included in the first round of EITI reporting and reconciliation in Yemen.

The responsibility for regulating the oil, gas and mining industries rests with the Ministry of Oil and Minerals (MOM).

4 THE EITI IN YEMEN

Yemen is a pioneer of the EITI in the Middle East. The present government has named the Minister of Oil and Minerals to be responsible for the EITI process, and has established a Secretariat as an independent unit within the Ministry of Oil and Minerals and a multi-stakeholder working group called the Yemen EITI Council. The Council has agreed on a work plan that has been revised once.

Yemen was admitted into EITI candidacy on 27 September 2007. After a difficult start to the process, agreement was eventually reached on a Reconciler and on templates for reporting and the level of (dis)aggregation for its published report. The Reconciler's findings were ready in September 2010. These findings were entirely incorporated into an EITI Report released in November 2010, which has been published in two languages, and is available for download at Yemen EITI's website. The YEITI Secretariat is now working on outreach plans.

All producing oil companies in Yemen have reported to the Reconciler.

SECTION 2: VALIDATION METHODOLOGY AND PROCESS

Validation of the Extractive Industries Transparency Initiative in Yemen

SECTION 2: VALIDATION METHODOLOGY AND PROCESS

The Validation team was composed of David W. Brown (Coffey International Development), Shawn Reynolds (PKF), Mahmoud K. Sabri (Grant Thornton Yemen) and Mohammed Abbas (translator). Tim Ruffer and Danielle Tappitake provided oversight and management support to the process. The team closely followed the EITI Validation Guide methodology.

In September 2010, the team began preparations for the Validation. This included:

- A review of relevant documentation on the EITI process in Yemen.
- Regular planning discussions with the Yemen EITI Secretariat.
- Sending written requests to oil companies with PSAs in Yemen, asking them to complete the Validation Company Self Assessment Forms (see Forms returned in Appendix 2).
- Inviting all members of the Yemen EITI Council (the Council) to provide confidential written submissions to the Validator.
- Preparation of a meeting timetable, which was arranged by the Yemen EITI Secretariat.
- Discussions amongst the team about the Validation methodology.

The Validation team submitted an inception report on 17 November 2010 and visited Yemen from 21 to 28 November 2010. Over the week, the team held the following meetings:

- an introductory meeting with the Council;
- meetings with Yemen stakeholders listed in Appendix 3; and
- a wrap-up meeting with the Council during which preliminary conclusions were presented on a detailed but confidential basis.

Following the visit to Sana'a, the team prepared a first draft of this report. It was circulated to the Council in Yemen and to the international EITI Secretariat on 9 December 2010. After receiving comments from the Council and the international Secretariat, the report was finalised and submitted to the Yemen EITI Council for approval. After a further possible round of comments and revisions, the report will finally be formally submitted to the EITI Board for its consideration in Paris in March 2011.

SECTION 3: PROGRESS AGAINST THE WORKPLAN

Validation of the Extractive Industries Transparency Initiative in Yemen

SECTION 3: PROGRESS AGAINST THE WORK PLAN

1 SUMMARY OF THE WORK PLAN

Following a period of discussions the Yemen EITI Council was established and an initial work plan was agreed in 2007. The work plan set out the key aspects of the EITI process in Yemen, in the following order:

- Appointing the Reconciler.
- Creating the Secretariat.
- Preparing templates.
- Building CSO and industry capacity.
- Creating awareness about the EITI in society at large.
- Submission of templates, reconciliation, and an audit of selected findings.
- Public discussion of draft report.
- Publication of report.
- Publication of a Yemen EITI handbook.
- Hiring of a Validator.

The initial work plan was a well-designed and thoughtful document, but progress on implementation was hampered for over a year due to the inability of the Yemen EITI Council to agree on the Council voting mechanism for arriving at decisions and whether the first round of reporting would include audits of selected transactions. A careful reading of Council meeting notes¹ reveal that, at certain points, the argument over the voting mechanism amounted to an effort by companies in the Council, particularly Nexen and Total, to forestall what they feared would be an unfavourable decision on audits of specific transactions.

In time, the Council was able to come to an agreement on both issues, in part due to the cumulative effect of serial interventions by the Minister of Planning and International Cooperation (June 2008), the World Bank's EITI Program Manager (February 2009) and the EITI Secretariat's Deputy Head (October 2009). Members of the Council made compromises and the Council was able to agree to the reporting templates, reconciliation and publication processes, in order to avoid Yemen losing EITI Candidate status.

Most of the compromising appears to have been done by CSOs, who eventually agreed to the adoption of the voting mechanism preferred by the oil companies, to forgo the auditing of specific transactions, as well as company-specific oil revenue figures in the first report.

As these compromises were being made, the work plan was reconfigured to account for time lost. The second work plan was approved by the Council in 2010.

In terms of outputs, it more or less resembles the first, and rolls out roughly as follows:

- Strengthening the Secretariat – done.
- Hiring the reconciler – done.
- Finalizing reporting templates – done.
- Submission and reconciliation process – done.
- Preparation of report – done.
- Validation – underway.

¹ For example, minutes from meeting 10 (6 July 2008) and meeting 11 (3 August 2008) of the Council.

- Building the capacity of CSOs – done.
- Communications – underway.
- Establishing a website – done.
- Self assessment – done.

2 PROGRESS

Progress on the second work plan has gone according to schedule. Some outputs have actually taken place ahead of schedule, such as training for CSOs (this occurred in late 2009, rather than the early 2010) and the establishment of a website (occurred in late 2009, rather than mid 2010).

Hart Nurse was selected as the Reconciler, and its Report has been published. The Report has been printed in two languages, and is posted on the Yemen EITI website. The work of the Yemen EITI Secretariat and the Council, including the costs of hiring the Aggregator, was financed by a grant from the World Bank-administered EITI Multi-Donor Trust Fund. The work of the Validators will be paid for by the Government of Yemen.

The management of the EITI is coordinated by the Yemen EITI Secretariat, which is organized as a separate unit in the Ministry of Oil and Minerals. The work of the Secretariat is also supported by an EITI Advisor in World Bank Yemen.

Although the two largest oil producers on the Council showed a certain lack of flexibility with respect to certain issues during the early years of the EITI in Yemen, it needs to be said that once certain compromises were reached, they became firm backers of the EITI process in Yemen. Nexen's and Total's representatives on the Council, in general, appear to have a linear and positive view of how the EITI process in Yemen can be taken forward.

SECTION 4: PROGRESS AGAINST VALIDATION GRID INDICATORS

Validation of the Extractive Industries Transparency Initiative in Yemen

SECTION 4: PROGRESS AGAINST VALIDATION INDICATORS

This section presents a narrative of the Validators' assessment of progress against the Validation Grid Indicators. For each indicator, it includes our interpretation of the criteria, progress against the indicator and/or the view of stakeholders, and our overall judgement. A summary Validation Grid is provided in Appendix 1.

SIGN-UP

1. Has the government issued an unequivocal public statement of its intention to implement EITI?

Progress

According to the Secretary General of the Yemen EITI Secretariat (Secretariat), Cabinet Decision 111, signed into force on 13 March 2007, constitutes an unequivocal statement of the Government of Yemen's intention to implement the EITI.

Validators' judgement

The indicator has been met.

2. Has the government committed to work with civil society and companies on EITI implementation?

Progress

The Yemen EITI Council (the Council) was formed on 19 September 2007. The council contained at that time (and continues to contain) three CSO figures and three oil company figures.

In view of the Council's having assigned seats to civil society and oil industry members, the EITI Board inferred a commitment on the part of the government to work with these two stakeholder groups, according to the Secretary General of the Secretariat. This, in part, led the EITI Board to award EITI candidacy to Yemen on 27 September 2007, again according to the Secretary General.

Validators' judgement

Since Yemen's being granted EITI candidacy, the Council has continued to demonstrate a commitment to working with civil society and companies. For example, when the Chairman of the Council was temporarily absent for medical reasons, the Validators observed that a senior civil society figure chaired the meetings of the Council. The Council also sent more than a dozen civil society figures for special training on the EITI in Kazakhstan.

Evidence of the Council's willingness to work with companies includes the fact that the Council has relied on company representative on the board to ensure compliance by selected firms that were slow in fulfilling reporting requirements.

The indicator has been met.

3. Has the government appointed a senior individual to lead on EITI implementation?

Progress

The senior official in Yemen appointed to lead on EITI implementation is the Minister of Oil and Minerals. This position was initially held by Khalid Bahhah, who was subsequently replaced by the currently-serving Minister of Oil and Minerals, Amir Salim Al-Aidarooos.

Stakeholder views

Although the Minister of Oil and Minerals is the formal leader of the EITI in Yemen, government and civil society stakeholders who were asked tended to be of the view that the Deputy Prime Minister, who also serves as the Minister of Planning and International Cooperation, Abdulkareem Al-Arhabi, is also an important champion. As a demonstration of the government's senior commitment to EITI, the YEITI Council cited the example of the Deputy Prime Minister's interventions to bridge the gap between oil companies and civil society, following disagreements which had resulted in the discontinuation of YEITI Council meetings.

Validators' judgement

The indicator has been met.

4. Has a fully cost-specified work plan been published and made widely available, containing measurable targets, a timetable for implementation and an assessment of capacity constraints (government, private sector and civil society)?

Progress

The initial EITI work plan, covering the years 2007 and 2008, was fully cost-specified, and drawn up and agreed by the Council in 2007. The work plan was revised in mid-2010, again with the full participation and agreement of the Council. The second work plan is currently in force.

In addition to containing measurable targets and timetables for implementation, the first and second work plan specify activities to assess and build the capacity of civil society and the oil and gas industries¹. With respect to assessment of capacity constraints, the first and second work plans set out "assessing the needs" for "civil society training and awareness creation" as a task. Both work plans also point to the need to provide "training in sustainable revenue management" to oil and gas companies. In comments provided to the Validators, the YEITI Council stated that the proposed 2011 budget makes provisions for capacity building.

Objective 12 of the first work plan calls for the appointment of a Validator and specifies that the government will pay for the work of the Validator. Objective 2 in the second work plan is devoted entirely to the validation process.

Although in interviews the Secretariat stated the intention of the Council to produce a report in calendar year 2011 for revenues conveyed and received in 2008, 2009 and 2010, neither work plans explicitly state the intention of the Council to do so.

Please see Section 3 for a more detailed discussion of the work plan, its contents and development.

Validators' judgement

The indicator has been met.

¹ These comprise activities under objectives 10 and 11 in the first work plan, and objective five (number 10 and 11) in the second work plan.

IMPLEMENTATION

5. Has the government established a multi-stakeholder group to oversee EITI implementation?

Progress

The Council has drawn up two terms of reference for its operations. The first, entitled “Terms of Reference of Yemen Extractive Industries Transparency Initiative (EITI) Council (YEC),” was drawn up in 2007 and signed into effect by the Council in 2008. The second *de facto* terms of reference, entitled “Draft Resolution for Issuing a Decree Regulating Yemen EITI Council Activities,” was signed into effect by the members of the Council on 18 April 2009. It includes an endorsement of the country work plan and calls for the execution of many tasks specified in the Validation grid.

The second terms of reference will soon be further amended to include the new quorum requirement and voting mechanism, which was adopted by the Council in October 2010. For a quorum to be met, a minimum of two representatives each from the line ministries, from industry and from civil society must be present, along with one independent government figure. Similarly, for a motion to be passed by the Council, votes in the affirmative must be cast by a minimum of two representatives each from the line ministries, from industry and from civil society, along with one independent government figure. However, in the event that a quorum cannot be reached in two successive meetings, any motion may be passed in the third meeting by a bare majority of those in attendance.

The YEITI Council’s Terms of Reference are fit to purpose, and give the YEITI Council adequate authority to exercise oversight of the EITI implementation process.

The current Council is comprised of: three ministry representatives, three industry representatives, three CSO representatives, and two independent government representatives.

Prior to the formation of the Council, the Ministry of Oil and Minerals placed an advertisement in a national newspaper, inviting all interested stakeholders to attend a meeting to explain the likely outlines of the forthcoming EITI process in Yemen. At the opening meeting, the 30 civil society representatives in attendance were requested to select three representatives to sit on the (soon-to-be-formed) Council.

Government members on the Council with voting rights are made up of three representatives from line ministries and two representatives from what are regarded in Yemen as quasi-independent government bodies with oversight responsibilities. Line ministries with seats on the council are the Ministry of Oil and Minerals, Ministry of Planning and International Cooperation, and the Ministry of Finance. Representatives in the Council from these three ministries are at a senior rank equivalent to that of Directors General. The Supreme National Authority on Combating Corruption (SNACC) and the Petroleum Committee of the National Parliament are also represented in the Council.

Three seats on the Council are given to industry representatives, including one member from each from the firms of Nexen, Total and Safer, the three largest oil producers in Yemen, which together account for just over two-thirds of national oil production.

During the first public EITI meeting in Yemen, six CSO representatives present competed for the three seats set aside for CSO representatives on the Council. The Human Rights Information and Training Centre (HRITC), the Future Forum and the federation of former parliamentarians were democratically elected by a group of approximately 30 civil society figures present. One day after this vote, the Ministry of Oil and Minerals pointed out in writing that the federation of former parliamentarians was not a civil society group registered with the Yemen Ministry of Social Affairs. Thus, the third seat on the Council was then given to the fourth largest vote-receiver, the Yemen Institute for Democratic Development (YIDD).

Stakeholder views

Civil society groups consulted as a part of the validation process said they regarded the invitation to join the Council as having been open and transparent.

Government and civil society stakeholders tend to believe that everyone in the Working Group has sufficient capacity. However, some elements of industry maintain that civil society members on the Council need to increase their understanding of the basics of oil and gas industry exploration and production, and major oil and gas revenue streams.

In view of the Council's composition, all stakeholders consulted said they feel adequately represented.

All stakeholders stated without reservation that they can liaise within and outside their community free of coercion – where EITI matters are concerned. However, the head of one human rights CSO, which belongs to the broader Yemen EITI CSO Coalition, stated that, although he feels no constraint upon his ability to advocate on behalf of the EITI, he is often harassed for his human rights work. He also stated that international organizations are discouraged by the government from providing funding to his organization.

In comments provided to the Validators, the YEITI Council stated that it felt the current YEITI TOR are comprehensive and provide the Council with adequate oversight of EITI implementation. The Council also stated that they felt sufficiently senior government representatives are included on the Council.

Validators' judgement

Based on discussions with stakeholders, the Validators are of the view that: the invitation from government to participate in Yemen EITI was open and transparent; members of the Council for the most part have the capacity to perform their duties; the Council is representative of all stakeholder groups; and all members of the council have freedom of association and freedom from coercion where activities pertaining to Yemen EITI are concerned.

As mentioned in Section 3, progress on implementation was hampered for over most of 2008 because of the inability of the Yemen EITI Council to agree on its voting mechanism and whether the first round of reporting would include audits of selected transactions. At certain points, preventing resolution on the question of the voting mechanism appeared to be motivated by a desire on the part of companies in the Council, particularly Nexen and Total, to forestall what they feared would be an unfavorable decision on whether specific transactions would be audited.

In time, the Council was able to come to an agreement on the voting mechanism and on the scope of reconciliation and reporting, in part due to interventions first by the Minister of Planning and International Cooperation (June 2008), then by the World Bank's EITI Program Manager (February 2009) and finally by the EITI Secretariat's Deputy Head (October 2009). As a result, members of the Council made compromises and the Council was able to agree to the reporting templates, reconciliation and publication processes.

Most of the actual compromising appears to have been done by CSOs, who in the end agreed to the adoption of the voting mechanism preferred by the oil companies, to forego the auditing of specific transactions, as well as company-specific oil revenue figures in the first report. The Council deserves positive recognition for resolving and then moving beyond these difficult disagreements.

The indicator has been met.

6. Is civil society engaged in the process?

Progress

CSOs participate actively in the Council, and express views independent of the Council. As discussed in Indicator 5, the invitation to CSOs to join the Council was open and transparent. CSOs feel adequately represented on the Council and are free to liaise on EITI issues (although sometimes not on human rights issues). As discussed above, CSOs showed political maturity by making certain compromises. CSOs acknowledge that they need to increase their understanding of how oil and gas exploration and production work.

According to the Council CSO representatives, the Council has delegated to them the responsibility for communicating with the 13 member CSO Coalition in support of the EITI. That Coalition has its own website and communicates with broader civil society. The (until recently) head of the CSO Coalition stated that he communicated major developments in Yemen EITI to his own organization's mailing list of up to 13,000 persons. The current head of the Coalition is still developing an outreach program and mailing list.

In order to build civil society capacity, and in line with provisions of the Yemen EITI work plan, the Council sent the entire membership of the CSO Coalition to learn from EITI-supporting CSOs in Kazakhstan.

Looking to the future, incipient plans are now emerging for a major oil producer in Yemen to begin to organize informal events to share information with CSOs on the basics of the oil and gas industry exploration and production, and revenue types. That same oil company is also considering inviting members of the CSO coalition to visit its oil production site. CSOs are aware of these plans, and welcome them. The level of trust between these two groups is currently low and this initiative, if it comes to realisation, will not only increase the capacity of CSOs, but also augment trust between CSOs and industry.

Stakeholder views

All members of the CSO Coalition steadfastly maintain that they are operationally and in policy terms independent of the government. However, CSOs divulged that, according to a Yemen government regulation, CSOs registered with the Ministry of Social Affairs are eligible to receive modest operating stipends. The CSO Coalition said that in practice, the recipients of government stipends tend to be those CSOs who are overtly pro-government. Although some of the CSOs interviewed said they would not be at all averse to receiving such stipends, the CSO Coalition stated that none of its members receive such stipends, and cited this fact as evidence of their independence from government.

Validators' judgement

Based on discussions with stakeholders, the Validators are of the view that outreach to wider civil society groups is occurring, actions to address civil society capacity have taken place, civil society is operationally and in policy terms independent of government, and civil society groups state that they have freedom of expression.

The indicator has been met.

7. Are companies engaged in the process?

Progress

Outreach by the Council to industry has been explicitly or implicitly² delegated to oil and gas companies who serve on the Council. The three companies serving on the Council inform producing oil companies in Yemen about the EITI process at oil industry meetings. In the sense that all reporting companies eventually submitted the documents that were needed, outreach may be said to have been successful and effective.

With respect to addressing the capacity constraints of industry in filling out templates, the Secretariat held meetings for both government and industry on 10 December 2009, and again on 20 January 2010, to explain to them how to fill out Yemen's EITI reporting templates.

² Explicit delegation means that the Council directly asked oil producers who sit on the Council to perform outreach to other reporting oil producers. Implicit delegation means that without necessarily having been asked by the Council to do so in every instance, oil producers who sit on the council have actively taken the initiative to facilitate the involvement of other oil producers in the Initiative, including, significantly, getting those producers to submit templates and supporting documents in full.

All reporting oil companies submitted EITI reporting templates, although not always on time. With some exceptions (see Indicators 12 and 16), reporting companies were diligent about providing supporting financial statements and attestations from their auditors that these financial statements had been audited to international standards. Companies were also involved in facilitating compliance of other companies: the representative from Total on the council made three reminder phone calls to the single firm that was tardy in providing both audited financial statements and confirmation from its auditors that those statements had been audited to recognized international standards.

All reporting firms (or in the case of the nation's two oil refineries, their parent company) cooperated with the Reconciler in solving discrepancies.

All reporting firms have returned their self assessment forms.

Validators' judgement

All oil producers are engaged in the EITI process in Yemen, in the sense that all attended capacity building sessions, all sent in their reporting templates and supporting documentation (see Indicator 12 for a longer discussion of this process.)

The indicator has been met.

8. Did the government remove any obstacles to EITI implementation?

Progress

To facilitate the reporting of companies, the Ministry of Oil and Minerals (MOM) helped establish confidentiality waiver clauses to enable companies to disclose revenue information to the Reconciler without breaching their Production Sharing Agreements.

In addition, when EITI reporting templates were sent out to reporting companies, they were covered with a letter from the Minister of Oil and Minerals instructing those companies to fill out the templates.

In October 2010, after a long effort championed by the Minister of Planning and International Cooperation, the existence and membership of the Council was declared by a Cabinet Decree.

Stakeholder views

The confidentiality waiver clauses established by the MOM are regarded as an effort by the government to remove obstacles to EITI implementation in Yemen

Moreover, the representative from Total stated that the Minister of Oil and Mineral's letter to companies was also regarded by those companies as a waiver to any restrictions on submission of information contained in PSAs. In this respect as well, the government removed obstacles to EITI implementation in Yemen.

Validators' judgement

The indicator has been met.

9. Have reporting templates been agreed?

Progress

Reporting templates for Yemen EITI were developed and refined by the Council and Secretariat between February and June 2010, and limited to oil producing companies for the first phase of EITI reporting (2005-07).

The contributions of the oil industry to government revenue dwarfed those from other extractive industries (gas and mining) between 2005 and 2007. The decision to restrict the scope of EITI reporting to producing oil companies was agreed by the Council to represent a suitable and pragmatic cut off point in terms of the scope of EITI in terms of materiality of extractive sector government

revenue streams. This was discussed by the Council in a meeting in Doha in February 2009, and ten of the eleven members of the Council signed a statement in October 2009 agreeing to the reconciliation for data of both government and oil companies for the years 2005, 2006 and 2007 in disaggregated reports. There was no formal voting mechanism for YEC at this date but there was a clear understanding for all parties that the signing of this agreement by a majority amounted to a de facto accord between all parties. The signed statement read:

'After lengthy deliberations and discussions, an agreement was finally reached regarding reviewing the work done by auditors appointed by MOM of past years for oil, gas, mining companies, as follows:

AA. Reconciliation for data of both government and oil companies for the past years 2005, 2006, 2007 in disaggregated reports.

BB. Reconciliation and audit testing of specific transactions for all oil companies and government for the year 2008 in a disaggregated report.

CC. Experts conducting AA & BB above on behalf of the Council to meet with government and company auditors to recommend to them observations to implement in future audits for (sic) the year 2009 and after by MOM auditors of companies.'

With particular respect to the above agreement, and as will be discussed in greater detail below, the Council subsequently retreated from its plan to publish a fully disaggregated report for the years 2005, 2006 and 2007. However, it continued to adhere to the materiality decision implicit to that provision, namely, that reporting would be done by oil producing companies only.

During the years 2005, 2006 and 2007, there was no commercial gas production in Yemen. However, members of the Council confirmed that the materiality of the gas sector to government revenues would continue to be monitored and reassessed at each stage of EITI Reporting due to a number of ongoing exploratory and development initiatives by companies that may result in material flows to government from gas in future years. Detailed plans for EITI reporting in 2008 and beyond in terms of inclusion of gas and mining sectors were not provided to Validators.

In January and February 2010, the initial version of the YEITI reporting template was developed and provided by Deloitte and Touche, which has significant experience in the oil sector – as auditors of the Ministry of Oil and Minerals (MOM) Oil Accounts – and is familiar with Production Sharing Agreements (PSA) currently used in Yemen. This initial version of the template was provided as draft to the EITI reporting entities together with instruction from the Minister of Oil. There was clear evidence of the consultative nature of development of the initial draft template (Council Meetings 25, 26) and the Validators were provided with a copy of the final template signed off by nine members of the YEITI Council. Companies and government departments not represented in the Council confirmed that they had received draft templates for comment and review.

In addition, part of the TOR for the Reconciler was to review the reporting templates as a basis for the final report. Members of the Council confirmed that discussions were held with a representative of Vision (the local subcontractor of the Reconciler organisation) as per the Reconciler's TOR to assess the completeness and appropriateness of the templates for EITI and their consistency with Yemen PSAs. The templates were subsequently refined and approved by the Council in June 2010. The final reporting templates captured the following revenue streams:

a) Monetary Transactions

- | | |
|----------------------|---------------------------|
| -Production Bonus | -Training Bonus |
| -Institutional Bonus | -Social Development Bonus |
| -Signature Bonus | -Excess Recovery |
| -Price Adjustments | -Audit Settlements |

b) Tariff Facilities Usage Fees

c) In Kind Transactions

-Profit Oil

-Royalties

d) Refinery Transfers

A workshop was also undertaken by the Secretariat to explain the reporting templates and the method of their completion, and followed up by a plenary meeting. Stakeholders reviewed four templates from other EITI countries, including Mauritania and Ghana. In addition Total and Nexen held an additional workshop for reporting companies to ensure that responsible officials were conversant with the completion of the templates.

Despite the earlier popularity on the Council for disaggregated reporting, ultimately an aggregated report was decided by Council vote, in order to accommodate the great reluctance of Total and Nexen for the report to present numbers disaggregated by firm. The templates reflected this aggregated approach.

Stakeholder views

It was widely acknowledged across stakeholder groupings that the final template was comprehensive and in accordance with their contributions during the consultation process. Some stakeholders noted that they considered more instruction could have been issued in their completion, and a lack of instruction led to many of the uncertainties in completing the template and resultant discrepancies on both the company and government sides.

This lack of instruction was however disputed by other stakeholders who indicated that they were satisfied with the manner in which the templates were handled by the Secretariat and Council. In some cases these individuals suggested that the inaccurate or incomplete reporting by entities (particularly within government departments) leading to initial discrepancies reported to the Reconciler was instead due to capacity constraints within the reporting entities, and management and communication problems within those organisations.

Civil society was generally satisfied with the information captured in the templates. One member of civil society raised the need to include taxation revenues in future when the scope of EITI is anticipated to be wider (taxes are not payable from oil companies). Civil society was also in favour of a disaggregated EITI report, although the civil society member on the Council accepted aggregated templates for 2005 to 2007 with a view to revisiting the disaggregation issue in future years. One civil society representative indicated that he was not happy with the completeness of the revenue streams included in the templates but was unable to indicate any omission from the template when asked specifically.

The government representatives and companies were content with the reporting templates.

Validators' judgement

The scope of reported revenues in the template was considered adequate. The Council discussed and consulted upon the period of reporting and the entities that would be subject to reporting. While there was not a separate determination of what revenues were 'material' in value or volume terms, a consensus was achieved that by including all twelve producing oil companies during the three year period, all material revenues were captured. It is the Validators' opinion that the assessment of oil, gas and mineral contribution to revenues which took place, in effect, qualifies as discussions over what sectors are material.

Although companies at the development and exploration phases had made limited payments to government, all parties represented on the Council agreed that these were not material for 2005 to 2007 and this is consistent with the Validators' expectations and was considered reasonable.

During the Validators' inquiries, no single revenue stream was identified as being omitted from the final template by any stakeholder interviewed, and the revenue streams were consistent with those indicated in the EITI Rules.

The detailed content of the template and the consultation and feedback procedures undertaken are considered adequate. Stakeholders were given the opportunity to propose additions and amendments to the templates and revenue captured therein before the final template was approved by the Council. Thus, the indicator has been met.

10. Is the multi stakeholder committee content with the organisation appointed to reconcile figures?

Progress

In November 2009 the Council began to develop the Terms of Reference (TOR) for the reconciling company. The Council spent a number of meetings discussing and refining the TOR, reviewing other EITI country TORs (such as Liberia) and were assisted by Deloitte & Touche and comments from the World Bank during the process. The TOR were finalised in January 2010. In addition to the performance of the EITI reconciliation and the production of resultant report, the Reconciler was also tasked with: providing advice on the draft reporting templates; and considering the appropriateness of the level of materiality for reported discrepancies between company and government figures, proposed by the Council at five percent.

The EITI International Secretariat provided the Council with a list of 14 auditing and accounting firms known to have EITI experience. The Council invited five companies to submit their bids following an initial Expression of Interest consultation with the shortlisted companies. Other companies listed on the EITI International list were eliminated based on perceived conflict of interest by the Council (i.e. the firms having previously worked for one or more of the reporting companies or the government).

Only three bids were finally received following the international bid process. The Council appointed a sub-committee to evaluate the bids, following a bid evaluation in line with World Bank practices. The sub-committee that assessed the technical proposal consisted of five members, representing companies (2), government (2) and civil society (1) interests. The financial proposal evaluation had an additional member from civil society.

Hart Nurse Ltd. was appointed as Reconciler by the Council at a Council meeting in March 2010.

Stakeholder views

Companies, civil society, and government representatives all expressed satisfaction with the process to select the Reconciler. All parties accepted that the representation of the stakeholders in the evaluation had been inclusive, and accepted the outcome of the tender process, as well as the underlying TOR of the Reconciler.

Although civil society and independent government members of the Council had previously raised concerns that the EITI procedure in Yemen should be disaggregated, the TOR that was approved by the Council stated that the reconciliation report should detail "payment categories on a company **aggregated basis**" (emphasis added).

Two stakeholders noted that there was surprise and concern when the selected company, Hart Nurse Ltd subcontracted a majority of the consultant inputs to a local firm, Vision Consulting Limited. However, there was no stipulation in the bidding process to preclude this.

Validators' judgement

The procedure to appoint the organisation was inclusive and transparent. The TOR was developed by representatives of all stakeholder groups, and the tender and evaluation process was also participative. The indicator has been met.

11. Has the government ensured all companies will report?

Progress

As noted for Indicator 9, the Council determined at an early stage that the EITI would only relate to producing extractive companies, and that companies involved only in exploration or development would be excluded. This decision was reinforced at the Doha discussion in February 2009, when the scope of the 2005, 2006 and 2007 EITI Report was limited to the only segment of extractive industries in Yemen at production/operational phase – the twelve producing oil companies.

The YEITI Council favoured an agreement with the twelve companies that would report for EITI, rather than amendment of legislation or regulations to mandate company participation and reporting. To facilitate the reporting of companies, MOM established confidentiality waiver clauses to enable companies to disclose revenue information to the Reconciler without breaching their Production Sharing Agreements. All twelve producers – ten private companies and two public enterprises – reported.

Workshops were organised by the Secretariat on reporting templates as indicated under Indicators 7 and 9 to facilitate prompt reporting, and Nexen and Total representatives on the Council provided additional assistance, including meetings, to provide further support.

There were delays in reporting by some companies beyond the established deadline. Among the reasons cited for this delay by companies was confusion resulting from MOM sending two versions of the template for completion.

The rationale for MOM sending the draft for completion by companies before the final version was ready was to save time overall. The companies would be able to gather the required information to insert in the draft template, and later quickly transfer the information into the final template that was not markedly different, thus saving time. However, the resulting confusion may have had the opposite effect, especially for at least one company which did not sit on the Council, and which was unaware of the reason for the apparent duplication (and refused for a period of time to fill out the final template).

Stakeholder views

Although all the companies sent completed reporting templates to the Reconciler in order for the reconciliation to be conducted, there were concerns expressed by one company that the process had been disorganised, with communications from/meetings with the Secretariat, the Reconciler, and from other oil companies. They considered a more formal arrangement for communications would have reduced delays.

Validators' judgement

Even though no amendments to legislation or regulations were implemented by the government, the Council and Secretariat were able to facilitate reporting by all twelve oil companies within the scope of YEITI for 2005 to 2007. The Reconciler was satisfied that the companies reported on a reasonable timeframe and confirmed that their reporting was to a high standard, requiring limited revisions (from companies) in order to reconcile to government figures. The indicator has been met.

12. Has the government ensured that company reports are based on audited accounts to international standards?

Progress

All of the ten private oil companies reporting under EITI were subject to audit in accordance with International Standards on Auditing (ISA) prior to the implementation of EITI and were considered to be conversant with International Financial Reporting Standards (IFRS) and ISA-compliant audits on those statements as a result of their international nature. As such the Council considered that revisions to Yemen legislation or auditing standards requiring the companies to comply with international auditing standards were not warranted.

Of the two public enterprises that make payments to the government in Yemen, Safer E&P was audited by a private audit firm that applies ISA. Yemen Company for Investment in Oil and Minerals (YICOM) is audited by the Supreme Audit Institution (SAI) in Yemen, the Central Organization for Control and Auditing, COCA.

In order to address the requirement of EITI for company-reported revenue figures to be based upon audited accounts to international standards, the Reconciler undertook to obtain a number of confirmations from companies and their auditors to support the figures reported by companies in the templates. These were:

- provision of financial statements including the audit report/opinion;
- confirmation from auditors that financial statements were audited in accordance with ISA; and
- confirmation from auditors that data provided in the reporting template was consistent with the audited financial statements.

All but two of the private companies – OMV and Jannah Hunt – provided their financial statements to the reconciler at the time of the Validation visit. OMV Exploration GmbH also did not provide confirmation from its auditors that financial statements were audited in accordance with ISA by the time that the Reconciler had completed the EITI Report.

A discussion with senior management at OMV indicated that their failure to respond to the Reconciler within the required timeframe was the result of oversight on their part rather than any intent to avoid reporting. Specifically, the member of management assigned primary responsibility for reporting and providing audit information suffered an accident that prevented him from working for a month. However, management at OMV acknowledged that another member of management was copied into some correspondence between the Secretariat and the absent manager, and that there was no contingency that enabled the absent manager's responsibilities under EITI to be dealt with by another member of OMV. As such the failure in reporting was preventable, and the Secretariat had taken the appropriate steps to facilitate reporting.

Jannah Hunt did provide a certification from its auditor that the audits of the financial statements of the company from 2005 to 2007 were in accordance with ISA, and that reporting data was consistent with the audited financial statements.

Since the Validators visited the Yemen, the Council took steps to obtain the missing information from OMV and Jannah Hunt, sending an official letter from the council. Nexen and Total exercised some efforts to convince the concerned companies to submit the required data, sending a detailed e-mail request explaining the importance of providing financial statements to aid the EITI process.

The Validators confirm that they have now received the outstanding documentation – financial statements and auditor confirmations - from OMV and Jannah Hunt from the Council. In addition, a Council Resolution to address YICOM (and other government reporting entities) audit issues has been passed and sent to the Validation Team this resolution was as follows:

'The Central Organization for Control and Auditing (COCA) was responsible for the audit of government reporting entities subject to EITI Reporting (the Entities) during 2005, 2006 and 2007. The Entities include YICOM, the Ministry of Oil and Mining, and the Ministry of Finance.

'The Yemen EITI Council (the Council) confirms that it has reservations as to whether the audits of the Entities by COCA during the years 2005, 2006 and 2007 were in accordance with international auditing standards (INTOSAI and International Standards on Auditing).

Notwithstanding, the Council confirms that it is satisfied that the quality of COCA audits of the Entities during 2005, 2006 and 2007 was sufficient to provide comfort to the Council on the reliability and accuracy of figures submitted by the Entities for EITI reconciliation.

Finally, the Council requires that prior to the next round of EITI reconciliation and reporting in Yemen, COCA takes all necessary steps to ensure that the audit of the Entities' statement is in accordance

with INTOSAI standards and International Standards on Auditing (ISA) to the satisfaction of the Council.'

Four of the ten oil companies that provided audited accounts to the Reconciler had qualified audit opinions. This means that either the scope of the audit was limited or that there was a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of disclosures in the financial statements. According to International Standards on Auditing (ISA 705 – *Modifications to the Opinion in the Independent Auditor's Report*), such qualifications do not represent such a serious or pervasive limitation of scope or disagreement that a 'disclaimer' of opinion or an adverse opinion is required.

Validators were able to confirm directly that for one of the companies with a qualified audit opinion (Calvalley Petroleum Cyprus), the qualification did not pertain to revenue payments to government. In discussion with Vision, the Reconciler, who had access to the remaining three financial statements of companies that contained a qualification, confirmed that none of these qualifications for any year had an impact upon reported revenues.

One of the companies, Dove Energy Yemen Ltd, could not provide audit confirmation that the reported figures were consistent with ISA, as their auditor for these years no longer existed. However, they were able to provide financial statements for the years 2005 to 2008 that had been audited in accordance with ISA.

Safer E&P was audited by a private audit firm that applied ISA, and the enterprise was able to provide audited financial statements and auditor confirmations to the Reconciler.

The public enterprise YICOM provided financial statements to the Reconciler but was not able to obtain any audit confirmations from the Supreme Audit Institution, COCA. Therefore, the Reconciler was not able to conclude that the statements had been audited in accordance with ISA. The Council has agreed to seek confirmation from COCA that YICOM was audited in accordance with ISA for years 2005 to 2008, and that figures reported by YICOM were consistent with the audited accounts.

Stakeholder views

Government representatives and companies considered that except for YICOM, the necessity for oil companies' audits to comply with ISA was assumed to pre-date YEITI.

Some civil society representatives raised concerns over the accuracy of company reporting but were unable to provide specific examples or evidence of misreporting. One civil society member indicated that specific figures in the EITI Report were 'counterfeit', but no evidence of this was provided to Validators.

The Reconciler raised an issue over the incorrect completion of the reporting templates by companies, noting that *'some reporting companies used the accruals basis when completing the data templates rather than using the cash basis as specified for this reconciliation'*. However, these errors were adjusted for in order to reconcile with government figures.

Validators' judgement

The Council sought to address the audit requirements of EITI reporting companies by tasking the Reconciler to obtain financial statements and confirmations from companies' independent auditors. In general terms the exercise was successful, with only one of twelve companies failing to provide any supporting confirmations.

Validators noted that in the case of OMV, the Secretariat and members of the Council undertook to pursue a response from the company up to the date of the completion of the EITI Report. However, in the case of YICOM, the Council failed to engage COCA after the Reconciler indicated that COCA would not provide the necessary confirmations that the audits of YICOM were in accordance with ISA standards or that reported figures were consistent with those audited. This represented a potential weakness in the assurance gained by the reconciliation process, as there is a risk that the underlying figures of company financial statements may not have been audited to ISA and could contain undetected errors.

Subsequent to the Validators' visit to Yemen, the Validators have been provided with the documentation required from OMV and Jannah Hunt and a Council Resolution that addresses the issue of government owned YICOM subject to international standards on auditing for future EITI reporting periods. As such Validators consider this indicator is met.

13. Has the government ensured that government reports are based on audited accounts to international standards?

Progress

The Central Organization for Control and Auditing (COCA) is the independent Supreme Audit Institution (SAI) in Yemen that is responsible for the audit of government entities. While COCA may outsource audits of government bodies to private sector firms, it is mandated to form the audit opinion upon the consolidated financial statements of the Government of Yemen. The audit of public bodies carried out by COCA is based upon Law no. 39 (1992) with regard to Central Organization for Control and Auditing.

There has been a lack of participation by COCA in the EITI process to date. COCA does not have any representation on the Council and has not been involved in earlier stages of EITI implementation such as the development of the Reconciler TOR or reporting templates. The chairman of COCA was present at the official launch of the EITI Report in November 2010³.

As part of the reconciliation exercise, the Reconciler requested confirmation from government reporting entities that their figures had been subject to audit. In order to facilitate this confirmation the Council sent letters to each government reporting entity, requesting the entity in turn to seek certification from COCA that it had audited its financial statements and underlying accounting records in accordance with international standards. Validators were provided with copies of these Council letters.

When Validators raised the issue of certification with representatives of COCA, they were informed that COCA was unaware of the request letters from government departments. An Assistant Deputy of COCA informed Validators that COCA would be able to provide such a certification, but due to the lack of involvement in the EITI process or awareness of letters sent by government entities, this had not been done.

COCA confirmed that they performed their audits in accordance with international standards, including International Organisation of Supreme Audit Institutions (INTOSAI) standards and ISA, though they did not present sufficient evidence to demonstrate this. Validators requested COCA documentation to support this assertion, including a copy of the organisation's Audit Manual, Annual Audit Plan and Revenue Audit Test Programmes. COCA representatives agreed to provide these documents to the Validators, but these have not been received to date.

While the government reporting bodies confirmed that they were audited by COCA in 2005, 2006 and 2007, they were unable to confirm whether the audits were comprehensive, and lacked the technical knowledge to confirm whether they were in accordance with international standards.

A doubt over the reliability of government reports was raised by the Reconciler, who observed that the quality of information supplied by companies was more accurate and comprehensive than that submitted by government bodies. This may be an indication that the underlying figures had not been scrutinised by auditors, but equally could be a symptom of inaccurate or incomplete completion of reporting templates from the underlying data.

Concerns relating to the audit of government reporting figures were raised during the first discussions between the Validators and the Council. Members recognized that steps needed to be taken urgently

³The chairman of COCA received an invitation to the launch in his capacity as a member of the Yemen Accounting Association, rather than in the official capacity of the Yemen SAI.

to provide the Council with comfort over the reliability and accuracy of government revenue reporting information, and this would require a direct role for COCA in the EITI, including representation in some capacity on the Council.

It was agreed that the Council should determine a way forward to ensure future satisfaction that COCA's audits were in accordance with international standards. The first step to achieving this goal would be a Council Resolution passed as soon as possible to take action to ensure that COCA audits comply with international standards prior to the next round of EITI reporting.

Subsequent to the Validation visit to Yemen, COCA provided a letter to confirm their adherence to International Standards on Auditing. Given the reservations expressed by both members of the Council and other stakeholders interviewed, this in itself was not deemed sufficient to address this indicator. However, in addition, the Council passed a detailed Resolution (detailed in indicator 12) that they were satisfied with the audits carried out by COCA to gain comfort on the reliability of government reporting figures notwithstanding their above reservations, and further a requirement from COCA to comply with International Standards on Auditing at the next round of EITI reporting.

Stakeholder views

A number of the stakeholders, including members of the Council, indicated that the extent of COCA's mandate, coupled with the limited resources of the COCA (qualified auditors, logistical support, etc), led to them having serious reservations as to whether COCA audits were in accordance with international standards, regardless of any legal obligation to do so. This uncertainty was raised by both civil society and company representatives.

Government representatives were generally satisfied with the activities of COCA but acknowledged that they were not in a position to give assurances over the strength of COCA's audits.

The Reconciler also raised concerns over the quality of government information within its report in a number of sections including:

- *'inadequate care over the completion of the data templates, particularly by the MOM accounting department'*
- *'inadequate understanding of the data template requirements, by some Government departments, especially from YOGC⁴ – Marketing department and YICOM'*
- *'YOGC and Aden Refinery were slow to provide the information and required much follow up work for our staff.'*

A workshop and follow-up meeting had been provided by the YEITI Secretariat, and generally stakeholders were positive that the reporting templates had been explained in sufficient detail at those meetings to be completed without difficulty.

This is at odds with the significant and widespread initial discrepancies in the reconciliation resulting from understatement of revenue receipts by government reporting entities. In many cases, no revenue was indicated at all for some revenue streams in some years, e.g. MOM Accounting Department did not report any of the US\$ 13.6 million excess recovery payments in 2005 or US\$ 58.3 million excess recovery payments in 2006 in their templates. These amounts were reflected accurately by the companies, and when the Reconciler contacted MOM Accounting Department regarding the discrepancies, the omitted revenues were confirmed.

Validators' judgement

The reliability of the information in initial government reporting templates has been questioned by a number of stakeholders, and specifically highlighted by the Reconciler in its final EITI Report. The

⁴ YOGC is the Yemen Oil and Gas Corporation, a subsidiary company of the Ministry of Oil and Minerals. It is a government reporting entity in YEITI, because its marketing department is the ultimate recipient of all production sharing oil from oil producers, both those amounts which are exported and sold by YOGC, as well as the remaining amounts which are purchased and refined by the Aden and Marib refineries, which YOGC oversees and/or owns, and on whose behalf it reports under YEITI.

significant omissions by MOM and YOGC were compounded by the inability of the Validators to obtain any evidence during the Validation visit to support the assertion that the information underpinning government reporting for EITI purposes is subject to international standard auditing procedures.

Since the Validators visited Yemen, evidence has been provided through the approval of a Resolution that the Council is satisfied that:

- the quality of COCA audits of the government reporting entities during 2005, 2006 and 2007 was sufficient to provide comfort to the Council on the reliability and accuracy of figures submitted by the entities for EITI reconciliation, and
- The Council requires that that COCA take all necessary steps to ensure that the audit of government entities' statements are in accordance with INTOSAI standards and International Standards on Auditing (ISA) to the satisfaction of the Council prior to the next round of EITI reconciliation and reporting in Yemen.

This is considered consistent with the caveat on Indicator 13 *'where figures submitted for reconciliation are not to audited standards, the multi-stakeholder group is content with the agreed way of addressing this.'* Consideration of this resolution leads the Validators to judge that this indicator has been met.

DISCLOSURE

14. Were all material oil, gas and mining payments by companies to government (“payments”) disclosed to the organisation contracted to reconcile figures and produce the EITI report?

Progress

As noted in Indicator 9, the materiality of extractive payments has been agreed by the Council to relate to all payments by producing companies within the oil sector. Equally, the reporting templates developed by the Council and subject to consultative process by the Secretariat and stakeholders were considered effective in capturing the significant revenue streams for extractive companies.

Stakeholder views

None of the stakeholders interviewed by Validators indicated that they were aware of specific material payments that were omitted in the final template. One civil society stakeholder suggested that tax revenue streams should be included in future EITI reconciliations.

The meeting minutes of the Council show extensive discussions over the development of the reporting templates (as detailed in Indicator 9), and that copies of the draft templates were disseminated beyond the Council to the wider civil society and companies for feedback.

The Reconciler confirmed that companies had reported on time and had cooperated with requests for information to aid the reconciliation with government figure. Some companies completed the templates using revenue figures on an accruals basis rather than the stipulated cash basis, but once this was pointed out to companies, the correct figures were provided on a timely basis.

Validators' judgement

The Council agreed that the appropriate scope for EITI for the years 2005 to 2007 would be oil companies that are at the production stage in Yemen. The Validators did not note any dissent from this agreed restriction from any stakeholder, and consider it a reasonable delineation of material revenues for the Yemen extractive sector during these years that pre-date the commercial production and liquification of gas in Yemen.

The EITI reconciliation exercise was performed efficiently with regard to company data, and there was no reluctance on the part of companies to disclose information noted by the Reconciler. This indicator has been met.

15. Were all material oil, gas and mining revenues received by the government (“revenues”) disclosed to the organisation contracted to reconcile figures and produce the EITI report?

Progress

As discussed in Indicator 14, the materiality of Yemen extractive revenues from 2005 to 2007 reflects the structure of commercial activities underway at the time, restricting the scope to oil companies in the production stage, as these were the main sources of material extractive industry revenues, whether in the form of in-kind conveyances (of oil) or payments of cash (bonuses, excess recovery payments, etc).

Government reporting entities were invited to participate in the development of reporting templates and attend workshops on how to complete them.

The Reconciler informed the Validators that ultimately there were no problems with the underlying records of government reporting entities during the years 2005 to 2007. However, the Reconciler noted in its report (Section 9.4) that serious problems were discovered in the reporting templates submitted to them by government reporting entities, including the MOM Accounting Department and Yemen Oil and Gas Corporation (YOGC) Marketing Department. In addition, the Reconciler was unable to obtain reporting information from Aden and Marib Refineries to report on crude oil transferred to them, and ultimately resorted to obtaining information from YOGC, the organisation that oversees and/or owns the refineries.

Once discrepancies between government and company were followed up by the Reconciler, it was quickly apparent that reporting templates completed by the MOM Accounting Department had been incompletely filled with data – in some cases entire blocks had been omitted from figures. This also explained the complete lack of any reported revenues for some significant revenue streams by government reporting entities in the years subject to reconciliation (such as production bonuses in 2005 and 2007). Once provided with the records for template cells that had been overlooked, the Reconciler was able to reconcile the figures to those reported by oil companies.

The Validator enquired about the cause of such a significant underreporting of crude oil transferred to the government for export from 2005 to 2007 (8.85 million barrels). The explanation initially given by YOGC to the Validators – that this resulted from fluctuation in a ‘reservoir’ of oil held in the tanks at any time (including at year end) – did not appear to be correct, and this was later confirmed in discussions with the Reconciler who confirmed the actual reason to be incomplete filling of templates by the YOGC and a lack of supervision of the process.

Despite the problems encountered by the Reconciler in obtaining complete reporting information from certain government reporting entities on a timely basis, its final conclusion was that all material revenues received by government had been reported. Although there were a number of small discrepancies in company and government figures, these were considerably below the materiality level set and agreed by the Council (as set out in the Reconciler’s TOR):

‘For this engagement, the Council has deemed that materiality of inconsistencies or unreconciled items for any payment category is a Government reported figure higher or lower by more than 5% as compared to that reported by the company.’

The largest unresolved discrepancy at the end of the reconciliation, pipeline tariffs, amounted to only 1.3 percent of company-reported figures, significantly below the five percent considered material by the Council.

Stakeholder views

Both representatives of MOM Accounting Department and YOGC Marketing Department disagreed with the comments made about them by the Reconciler in the final EITI Report.

No representatives of government reporting entities raised any concerns over the sufficiency of training and instruction given by the Secretariat, and so it does not appear that the incomplete information reported resulted from any deficiencies in these areas.

Members of civil society raised concerns over the completeness of government reporting in general terms but were unable to provide specific omissions or unreported figures as disclosed in the final EITI Report.

Validators' judgement

After conducting discussions with stakeholders from the government and with the Reconciler, the Validators consider that it likely that there were timing and quality problems with reporting from some government entities. The Validators note that this was the first EITI cycle in Yemen and believe it is conceivable that difficulties in communication with large government departments could have led to the underreporting and delays highlighted in the EITI Report.

There was clearly an issue with the reliability of information submitted by government reporting entities. However, once notified by the reconciler that returns were incomplete, the reporting entities were able to provide accurate information rapidly. This suggests that it was the process of transferring data accurately onto the templates, rather than an inherent unreliability of the data itself (as could be a symptom of a lack of independent audit of underlying figures), that was a problem.

Validators consider these were genuine oversights by the reporting entities rather than an attempt to obfuscate or derail the reconciliation process. This observation was consistent with the assessment of the reconciler. Ultimately all material missing data was provided to the reconciler.

Moreover, regardless of these hurdles, the final outcome of the reconciliation process, including the disclosure of all revenues received by government, was complete and to all stakeholders' satisfaction. The indicator is met.

16. Was the multi stakeholder group content that the organisation contracted to reconcile the company and government figures did so satisfactorily?

Progress

The selection of the reconciler organisation achieved in a transparent and inclusive tender procedure is detailed in Indicator 10. The EITI Report produced covered years 2005, 2006 and 2007.

Although this was the first EITI report produced in Yemen, there were no significant issues raised by stakeholders with the reconciliation process itself, as opposed to the resultant report.

Stakeholder views

As noted in Indicator 10 the Council was content with the mechanisms for selection of the reconciling organisation.

A number of stakeholders raised concerns not directly related to the reconciliation procedure itself, but in relation to the draft and final EITI Report that resulted.

Some members of civil society argued that they were not give a sufficient opportunity to comment upon the draft report, and that not all of their comments were reflected in the final version. The initial timeframe for providing feedback was one week, although this was extended to two weeks. Members were notified by e-mail of the need to provide feedback within this window. One member of civil society on the Council indicated that they were not in Yemen during this time and as such their

comments arrived too late to be incorporated into the report, while another provided two sets of comments, and only the first set were incorporated.

A member of civil society indicated that while a session between the Council and Vision was arranged, this was only for 15 minutes, and because the member was late to arrive for the meeting, they did not get an opportunity to raise any questions on the report. Another Council member indicated that the Vision representative was with the Council for 45 minutes to one hour, and that the civil society member who missed the meeting was very late.

A concern was also raised that the session given for questions by Vision was part of a normal Council meeting and so insufficient time was provided for feedback. However this was also rejected by another Council member who explained that an additional Council meeting was held solely to deal with the draft report.

Company and government representatives on the Council did not raise concerns over the reconciliation carried out by Hart/Vision.

The aggregated nature of the EITI Report remained an issue of contention throughout the EITI reconciliation process, especially for civil society members of the Council and the wider civil society who considered that it went against the spirit of EITI in increasing transparency.

A common concern was the lack of detailed explanation in the final report in terms of how the discrepancies arose and how Hart/Vision was able to reconcile them. Examples of the general nature of terms in the report regarding the source of discrepancies:

'inadequate understanding of the requirements, by Government departments and companies; inadequate care over completion of the templates, ...'

The lack of specific detail in the report led some stakeholders to consider the report flawed and the explanations given suspect. One member of civil society went as far as to call the report figures 'counterfeit'.

The Validators also noted that YOGC, a government reporting entity criticised in the report on at least six occasions, were not provided with the draft report by the Council and as such not given any right to respond to the criticisms made of YOGC in the report.

However, the Council ultimately authorised the final EITI Report for publication and official launch by qualified majority vote (as not all members of the Council were able to attend the meeting where the EITI Report was considered and approved).

Validators' judgement

The Reconciler's report was criticised by a number of stakeholders in general terms. When Validators requested specific problems to be cited during our visit these were not provided. In discussions, the Validators found that the local Reconciler, Vision, displayed a strong understanding of the extractive sector in Yemen and the issues that could impact upon the reporting by companies and government reporting entities.

Concerns raised by members of the Council as to whether adequate time was provided for commenting on the draft report and whether Vision met with the Council for sufficient time to respond to these concerns remain disputed. However, the Validators would consider that a longer window for comments on the draft would have been preferable, as would a longer meeting between the Reconciler and the Council to discuss concerns.

The Validators concur with the comments of some stakeholders that the explanations given for some of the discrepancies in the report were insufficient to provide strong assurance to users of the report of their veracity. The Validators consider that the actual reconciliation carried out was appropriate and in some cases the efforts of the Reconciler went further than what would have been expected of it under its TOR, but the report does not reflect the diligence in the actual reconciliation process.

The Validators performed a detailed review of the final EITI Report and noted a number of inconsistencies in the report between some of the explanations for discrepancies and the associated figures in the reconciliation table. For example, one table containing reconciliation discrepancies had explanations that pertained to both company and government failures in providing revenue data, and yet the table showed adjustments only on the company side – the government reported figures did not require any correction in order to reconcile. The Reconciler confirmed that these inconsistencies resulted from a failure to remove some erroneous comments from the draft version of the report. While these errors were infrequent, they may act to undermine the credibility of the report as a whole.

Another example is found in the reporting of excess recovery, one of ten monetized revenue streams covered in the report. Of the ten revenue streams, excess recovery had the largest discrepancy between amounts reported to have been conveyed and received (over US\$70 million in 2005 and 2006). Rather than explaining this specific shortfall, the report instead gives four reasons for those discrepancies that occurred across all ten of monetized revenue streams in the report. The Validators found out that none of these four reasons explained the shortfall in initial government reports of excess recovery. Rather the responsible government reporting entity, the Accounting Department of the Ministry of Oil and Minerals, had not maintained proper archives of receipts of this specific revenue stream and, as a result, failed to report it. The Central Bank had maintained such records, and this was how the Reconciler was able to determine that the amounts reported by industry had, in fact, been received by government. In such instances, the report would have benefited from a more detailed explanation of the discrepancies and their eventual resolution.

Validators also enquired of the Reconciler as to the qualified audit reports on some companies' financial statements disclosed in an appendix to the report, which could indicate inaccuracies in the company figures that would lead to material errors in company reporting figures. The Reconciler confirmed that they had studied the reports in each case and concluded that the nature of the qualification did not impact upon the accuracy or completeness of revenue payments to government. There was no explanation given as to why this important fact was not disclosed in the report to give assurance to those who read it.

Nonetheless, the report detailed discrepancies clearly. The report also incorporated reconciliation tables where figures were corrected for reporting errors and omissions of revenues to reveal the immaterial nature of the discrepancies that were not reconciled. The Council had approved and published the final EITI Report despite any misgivings noted above.

Therefore Validators considered that the organisation discharged its obligations under its TOR to the satisfaction of the Council, which endorsed the Report by majority vote. The indicator has been met.

17. Did the EITI report identify discrepancies and make recommendations for actions to be taken?

Progress

Submitted reporting information from the oil companies and government reporting entities had significant initial discrepancies. These were particularly frequent on the government side – such as for excess recovery payments (initially understated by US\$73 million over the three years). Some financial revenue flows were omitted completely in government templates initially submitted.

The main factor leading to the discrepancies by companies was their reporting of revenues paid to government on an accruals basis, rather than the cash basis indicated in the template instructions.

The reason for underreporting on the government side was less clear. No stakeholders indicated that they considered it to be the result of insufficient dissemination by the Secretariat, or a lack of participation in the process or understanding by government entities as to how to complete the templates.

The Reconciler believed significant omissions were initially made by government entities in reporting through inadequate care in completing the forms and a lack of supervision by senior management

over the process. By following up with respective parties, the Reconciler was able to identify the causes of all material discrepancies and this is clearly reflected in Section 5 of the EITI Report.

The Reconciler also included a section dealing with recommendations, many of which highlight the difficulties that led to discrepancies and delays in the reconciliation. Others considered the scope of EITI in Yemen and the implication of a failure to gain assurance that the government figures had been audited according to EITI Criteria.

The Reconciler's recommendations are listed below:

1. The Council bring the EITI reconciliation process up to date. The Council should establish a benchmark that the reconciliation should be completed within, say, six months of the end of the relevant year;
2. For future reconciliations, company representatives on the Council be requested to liaise directly with the counterpart company personnel in other companies who will complete the templates to emphasise the need to report cash transactions only;
3. The Council, in discussion with stakeholders, establish a timescale for the reconciliation that is generally agreed to be realistic;
4. The Council, in discussion with the MOF, speed up the process of completing the templates and return it back to the reconciler;
5. The Council stress to the YOGC of maintaining detailed records of crude oil quantities for easy reference;
6. The Council stress to all Government entities the importance of having proper archiving so that easy reference to reported figures can be made;
7. The Council review the status of auditing in the Government with reference to EITI Criterion #2;
8. Reconcilers sought confirmation that company data and government data had been audited in accordance with international standards. Confirmation was lacking in many cases, as set out in paragraph 2.7 and the Appendices to this report;
9. The Council review this situation and consider for future reconciliations how the evidence of appropriate audit might be acquired; and
10. The Council consider including mining and gas activities within the scope of YEITI.

The Validators consider these recommendations below.

Stakeholder views

Some members of civil society remained unconvinced that the report had identified and satisfactorily explained the origin of discrepancies.

Company representatives accepted the findings in the report.

The government representatives were mixed in their response to discrepancies in the report. They generally accepted that discrepancies had occurred and been resolved, but no government entity referred to specifically in the report as a source of discrepancies and spoken to by the Validators accepted the criticism given by the Reconciler.

The stakeholders interviewed from all three groups did not express dissent regarding the recommendations set out by the Reconciler in the report.

Validators' judgement

The YEITI Report for 2005, 2006 and 2007 identified discrepancies between company and government figures and reconciled material discrepancies. The report also made appropriate recommendations for corrective action that have been accepted by the Council, and should be considered when preparing for future rounds of EITI in Yemen.

The Validators consider that these recommendations are reasonable and are consistent with our experience of the EITI process in Yemen and the findings of the reconciler's report. In our discussions

with the Council and Secretariat, they indicated their readiness to learn from this first cycle of EITI reporting and willingness to adopt recommendations within their capacity.

At the same time, we note that the final EITI Report was issued in late October 2010, giving the Council limited opportunity to respond to date, as they had been focusing efforts towards the Validation process. Some recommendations such as 7 and 8 in the above list resulted in issues for the Validation on specific indicators that the Council has taken prompt action to address, and this bodes well for the remaining recommendations.

The indicator is met.

How have oil, gas and mining companies supported EITI implementation?

Progress

All EITI-reporting firms must submit self-assessment forms. All twelve firms required to submit self-assessment forms did so.

Validators' judgement

All firms have submitted self-assessment forms, as is required for validation.

DISSEMINATION

18. Was the EITI Report made publicly available in a way that was accessible, comprehensive and comprehensible?

Progress

Yemen's EITI Report was distributed at a November public launch, at which the Minister of Oil and Minerals delivered the keynote address. The report has been published in two languages (Arabic, English) and placed on the Yemen EITI website.

The Report is relatively comprehensive and includes most of the information gathered as a part of the reconciliation process, as well as many recommendations for improvement.

With respect to further dissemination of the report, the Secretariat has hired a Communications consultant, who has drawn up plans for sending teams to six of Yemen's most resource rich governorships: Marib, Aden, Tuez, Mukalla, Amran and Shabwa. A follow-up event in Sana'a is also planned. These outreach events are hoped to be completed by March 2010, although some slippage seems possible.

Plans are also afoot for the report to be summarized and published in national newspapers.

Stakeholder views

Stakeholders consulted were unanimously of the view that the national launch of the first Yemen EITI Report was effective.

Validators' judgement

The report is understandable, in the sense that it is written in a clear, accessible style, and in appropriate languages (Arabic and English). In addition to a public launch and publishing of the EITI Report online, additional outreach activities are planned to disseminate the report among a wider audience across six regions in Yemen. The Validators are of the view that these regional events are important, and will contribute significantly to a wider understanding in Yemen of YEITI and the information it has produced.

The indicator has been met.

What steps have been taken to act on lessons learnt, address discrepancies and ensure EITI implementation is sustainable?

Progress

The Council intends to dedicate one or more meetings to assessing the EITI process before engaging in the second round of reporting and reconciliation. Following on from its collection of templates and publishing its first EITI Report, the intention of the Council is to collect templates from and publish a report in 2011, covering the years 2008, 2009 and 2010. In a Council meeting on 15 January 2011, the YEITI Council confirmed its intention in 2011 to assess the first EITI reporting experience with all stakeholder groups, as well as undertake an EITI reconciliation for the years 2008-09.

According to the Secretary General, Yemen EITI has been funded almost entirely with a US\$350,000 grant from the World Bank-administered Multi-Donor Trust Fund (MDTF). The Secretary General reports that approximately \$140,000 of that grant is still unexpended, but that this amount will be mostly spent by March 2011. The Chairman of the Council believes it will be difficult to get the government of Yemen to pick up funding for the implementation of the EITI in the coming year. The Chairman maintained that the only way the Initiative can continue is with further funding from the MDTF, but stated that the MDTF is reluctant to give Yemen another grant. More thought needs to be given to, and a concrete set of plans needs to be erected in order to ensure, the short, medium and long-term sustainability of the EITI in Yemen.

The commitment on the part of government to continue to implement the EITI in Yemen is somewhat in question, especially with elections coming up in March 2011. Nevertheless, on balance, the EITI has a champion in the person of Yemen's Deputy Prime Minister. It also enjoys strong support from a committed core of civil society groups and most of the country's largest oil producers.

SECTION 5: COMPANY IMPLEMENTATION

Validation of the Extractive Industries Transparency Initiative in Yemen

SECTION 5: COMPANY IMPLEMENTATION

All producing PSAs in Yemen (currently twelve companies) have submitted reporting templates to the Reconciler and communicated with the Reconciler in order to eliminate nearly all discrepancies. Three companies were invited to serve on the Yemen EITI Council and participated in the selection of the Reconciler and the Validator. These three companies briefed other companies in informal industry meetings.

Appendix 2 presents the completed Company Self Assessment Forms, which contain responses on five indicators:

1. Has the company made public statements in support of the EITI process in this country?
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder working group), including abiding by government EITI related directives (e.g. laws and MOUs) and, where appropriate, meeting with stakeholders?
3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI report as per agreed EITI Reporting Templates and pursuant to agreed timelines?
4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI report taken from accounts independently audited to international standards?
5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI report to assist in reconciliation of country payments with government receipts in accordance with EITI Reporting Templates?

According to the **EITI Rules** publication (pages 26 and 27), all EITI-reporting firms must submit self-assessment forms. All firms in Yemen that are required to submit self-assessment forms have done so.

SECTION 6: OVERALL ASSESSMENT

Validation of the Extractive Industries Transparency Initiative in Yemen

SECTION 6: OVERALL ASSESSMENT

The Validators consider that after initial delays, the Republic of Yemen has made significant progress in implementing the EITI in a very short period of time. In particular, the establishment and operations of the country's EITI Council and Secretariat were noted to be of particular importance by the Validators.

The process is highly valued by civil society and company stakeholders who see it as a key step in improving transparency and accountability in government. Government representatives themselves also appear to value the initiative for helping improve natural resource governance within the country.

On Indicator 12: "Has the government ensured that company reports are based on audited accounts to international standards?" the Validators are now satisfied that the Indicator has been met due to the additional efforts of the Council since the Validation visit to Yemen. These efforts include the obtaining of substantiating documentation and a resolution on government audit.

On Indicator 13: "Has the government ensured that government reports are based on audited accounts to international standards?" the Validators are now satisfied that the Indicator has been met due to the additional efforts of the Council since the Validation visit to Yemen. In particular the Council passed a resolution to address the identified problem with government audit which was considered by many stakeholders to be inferior to international standards.

As the Validators of the EITI process in Yemen we are pleased to confirm that in our view Yemen has complied with all the EITI Indicators contained in the Validation Guide, and the process is fully consistent with the EITI's Principles and Criteria.

SECTION 7: RECOMMENDATIONS FOR FUTURE IMPLEMENTATION

Validation of the Extractive Industries Transparency Initiative in Yemen

SECTION 7: RECOMMENDATIONS FOR FUTURE IMPLEMENTATION

The following is a summary of recommendations for the future implementation of EITI in the Republic of Yemen.

Indicator 3: Senior Government Leadership of EITI

- The challenge of securing and maintaining the support of senior government figures for EITI is present in most EITI implementing states, and Yemen is no exception. The YEITI Council should secure increased support of senior government officials. Either the Minister of Oil and Mineral Resources (the formal head of the process) or the Deputy Prime Minister/ Minister of International Planning and Cooperation (an effective, but intermittent champion of the EITI in Yemen) should be brought more centrally into the process.

Indicator 4: Work Plan

- The Council should include a more thorough assessment of capacity constraints in the next Work Plan.
- In each new iteration of the Work Plan, updates of the fulfilment (or lack thereof) of objectives should be included.

Indicator 5: The Multi-Stakeholder Group

- The Council should consider the inclusion of additional stakeholders within its membership, possibly as observers (with authorization to speak, but not vote). In particular, COCA, the Supreme Audit Institution of Yemen, should be included because of its significant role in the EITI process as the main auditor of the government. Another potential candidate for observational role in the Council is YOGC, which oversees and manages receipt of the two main extractive industry revenue streams – oil for export and oil to refineries -- and participated in the EITI reporting process.

Indicator 6: Civil Society Involvement

- The Council should encourage willing companies to assist in building capacity of civil society, possibly through information sharing events and visits to oil production sites.
- The Secretariat should improve outreach to civil society stakeholders in the regions.
- Stakeholders from companies and civil society should consider further discussions on shared interests and should jointly present key requests to the government.

Indicator 9: Reporting Templates

- The Secretariat should continue to provide trainings and advice to all necessary parties to ensure the templates are properly completed.

Indicator 11: Ensuring All Companies Report

- The Secretariat may consider reviewing information dissemination channels to companies not represented on the Council in light of problems experienced in getting some companies to report on a timely basis.

Indicator 12: Company Reports based on Audited Accounts to International Standards

- The Secretariat may consider reviewing information dissemination channels to companies not represented on the Council in light of problems experienced by some companies in providing financial statements and auditor confirmations on timely basis.

Indicators 14 and 15: Material Payments

- The Secretariat should consider additional trainings and awareness raising of EITI among government reporting entities, focusing upon the problems experienced for 2005, 2006 and 2007 and the best way to mitigate them going forwards.

Indicator 16: Was the multi stakeholder group content that the organisation contracted to reconcile the company and government figures did so satisfactorily?

- The Council may consider the arrangement of a future meeting with the Reconciler in order to ensure that all members understand and/or are content with the procedures underlying the reconciliation process and to assist in the production of future TORs for the reconciling organisation.

Indicator 18: EITI Report Dissemination

- The Secretariat should consider further cooperative activities with civil society to ensure that the information in the report is more widely accessible.

Going Forward

- The Secretariat is the key resource in driving EITI in Yemen forward. Serious efforts should be taken by the Council to ensure the sustainability of the Secretariat.
- The Council should consider a discussion on publishing disaggregated data, possibly on a progressive or stepped process over a number of reporting periods.

APPENDIX A: VALIDATION GRID

Validation of the Extractive Industries Transparency Initiative in Yemen

APPENDIX A: VALIDATION GRID

Indicator	Validator's Comments	Validator's Judgement
Sign-up		
1. Has the government issued an unequivocal public statement of its intention to implement EITI?	Cabinet Decision 111, signed into force on 13 March 2007, constitutes an unequivocal statement of the Government of Yemen's intention to implement the EITI.	Indicator met.
2. Has the government committed to work with civil society and companies on EITI implementation?	The Yemen EITI Council was formed on 19 September 2010, consisting of government, civil society and industry representatives. In view of the Council having assigned seats to civil society and oil industry members, the Validators inferred a commitment on the part of the government to work with these two stakeholder groups.	Indicator met.
3. Has the government appointed a senior individual to lead on EITI implementation?	The senior official in Yemen appointed to lead on EITI implementation is the Minister of Oil and Minerals. This position was initially held by Khalid Bahhah, who was subsequently replaced by the currently-serving Minister of Oil and Minerals, Amir Salim Al-Aidaros.	Indicator met.
4. Has a fully time-bound and costed work plan been published and made widely available, containing measurable targets, a timetable for implementation and an assessment of capacity constraints (government, private sector and civil society)?	The initial EITI work plan, covering the years 2007 and 2008, was drawn up and agreed by the Council in 2007. It was revised in the summer of 2010, again with the full participation and agreement of the Council. The second work plan is currently in force. In addition to containing measurable targets and timetables for implementation, the work plan specified activities to build the capacity of civil society and the oil and gas industries.	Indicator met.
Implementation		
5. Has the government established a multi-stakeholder working group to oversee EITI implementation?	The Council is comprised of appropriate stakeholders, with representatives from three ministries, three companies, three civil society organisations and two independent members (the Authority on Combating Corruption and the Parliament).	Indicator met.
6. Is civil society engaged in the process?	Civil society is clearly engaged in the EITI implementation process.	Indicator met.
7. Are companies engaged in the process?	Companies are engaged in the process, participating on the Council, and assisting efforts by the Secretariat to ensure compliance.	Indicator met.
8. Did the government remove any obstacles to EITI implementation?	The Government took steps to ensure that confidentiality provisions in Production Sharing Agreements (PSAs) were not an impediment to the ability of companies to submit EITI templates.	Indicator met.

Indicator	Validator's Comments	Validator's Judgement
9. Have reporting templates been agreed with working group?	The Council has determined the scope of reporting companies that provide material revenues to government and the revenue streams to be captured in templates. The detailed content of the templates and the consultation and feedback procedures undertaken are considered adequate. Stakeholders were given the opportunity to propose additions and amendments to the templates and revenue captured therein before the final templates were approved by the Council.	Indicator met.
10. Is the multi-stakeholder committee content with the organisation appointed to reconcile figures?	The procedure to appoint the Reconciler was inclusive and transparent. The terms of reference were developed by representatives of all stakeholder groups, and the tender and evaluation process were also participative.	Indicator met.
11. Has the government ensured all companies will report?	All members of the Council and the Reconciler confirmed that all companies reported material revenue transfers without obstruction. There was no need for the government to take special steps.	Indicator met.
12. Has the government ensured that company reports are based on audited accounts to international standards? Note: Requires at a minimum that where figures submitted for reconciliation are not to audited standards, that the working group is content with the agreed way of addressing this.	A majority of companies were able to show that their reports are based on audited accounts to international standards through the reconciliation process. Subsequent to the Validators visit to Yemen, the Validators have been provided with the necessary documentation required from OMV and Jannah Hunt to demonstrate that their company reports are based on audited accounts to international standards. In addition, a Council Resolution that addresses the issue of government owned YICOM subject to international standards on auditing for future EITI reporting periods was passed. As such Validators consider this indicator is met.	Indicator met.
13. Has the government ensured that government reports are based on audited accounts to international standards? Note: Requires at a minimum that where figures submitted for reconciliation are not to audited standards, that the working group is content with the agreed way of addressing this.	Stakeholders expressed concerns over the reliability of government data. The Central Organization for Control and Auditing, (COCA), provided a letter to confirm their adherence to International Standards on Auditing. In addition, the Council passed a detailed Resolution that they were satisfied with the audits carried out by COCA to gain comfort on the reliability of government reporting figures, and further a requirement from COCA to comply with International Standards on Auditing at the next round of EITI reporting.	Indicator met.
Disclosure		
14. Were all material oil, gas and mining payments by companies to government ("payments") disclosed to the organisation contracted to reconcile figures and produce	All company templates were submitted directly to the Aggregator.	Indicator met.

Appendix 1: Validation Grid

Indicator	Validator's Comments	Validator's Judgement
the EITI report?		
15. Were all material oil, gas and mining revenues received by the government ("revenues") disclosed to the organisation contracted to reconcile figures and produce the EITI report?	All government templates were submitted directly to the Aggregator.	Indicator met.
16. Was the multi-stakeholder group content that the organisation contracted to reconcile the company and government figures did so satisfactorily?	The report detailed the discrepancies detected clearly, although explanations of reconciling adjustments were unnecessarily vague. The report incorporated reconciliation tables where figures were corrected for reporting errors, and demonstrated the immaterial nature of the remaining discrepancies that were not reconciled. The Council has approved and published the final EITI Report. Therefore Validators consider that the organisation has discharged its obligations under its TOR to the satisfaction of the Council.	Indicator met.
17. Did the EITI report identify discrepancies and make recommendations for actions to be taken?	The report identified a number of discrepancies and made recommendations accepted by stakeholders.	Indicator met.
How have oil, gas and mining companies supported EITI implementation?	All twelve firms required to submit self-assessment forms did so.	Question answered.
Dissemination		
18. Was the EITI report made publicly available in a way that was: publicly accessible, comprehensive, and comprehensible?	Yemen's EITI Report was distributed at a November 2010 public launch, at which the Minister of Oil and Minerals delivered a keynote address. The report has been published in two languages (Arabic, English) and was placed on the Yemen EITI website. The Report is relatively comprehensive and includes most of the information gathered as a part of the reconciliation process and many recommendations for improvement. It is written in a clear, accessible manner.	Indicator met.
What steps have been taken to act on lessons learnt, address discrepancies and ensure EITI implementation is sustainable?	The Council intends to dedicate one or more meetings to assessing the EITI process before engaging in the second round of reporting and reconciliation.	Question answered.

APPENDIX B: COMPANY SELF-ASSESSMENT FORMS

Validation of the Extractive Industries Transparency Initiative in Yemen

THE VALIDATION GUIDE

EITI COMPANY SELF-ASSESSMENT FORM COUNTRY-LEVEL

COMPANY: *CALVALLEY PETROLEUM (CYPRUS) LTD* COUNTRY: *YEMEN*

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No
5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

COMPANY:

Canadian Nexen Petroleum East Al Hajr Ltd.

COUNTRY:

Yemen

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No
5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

EITI COMPANY SELF-ASSESSMENT FORM COUNTRY-LEVEL

COMPANY: DNO YEMEN AS
BLOCK 32 & BLOCK 43

COUNTRY: YEMEN

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No

2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No

3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No

4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No

5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

THE VALIDATION GUIDE

EITI COMPANY SELF-ASSESSMENT FORM COUNTRY-LEVEL

COMPANY: *DOVE ENERGY LIMITED* COUNTRY: *YEMEN*

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?

Yes No

2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?

Yes No

3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?

Yes No

4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?

Yes No

5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?

Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

None.

COMPANY:

Jannah Hunt Oil Company

COUNTRY:

USA Co. Operate in Yemen

Mark indicators below with a ✓

- 1. Has the company made public statements in support of the EITI process in this country?
 Yes No

- 2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No

- 3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No

- 4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No

- 5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

1- No Public statements published for (JHOC) since, Hunt Oil Company, a privately held exploration and production company. The Headquartered in Dallas, Texas, Jannah Hunt Oil Company (JHOC), a subsidiary of Hunt Oil Company.

Any other comments:

COMPANY:

COUNTRY:

Occidental Petroleum of Yemen Yemen



Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No

2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No

3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No

4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No

5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

EITI COMPANY SELF-ASSESSMENT FORM COUNTRY LEVEL

COMPANY: OMV (YEMEN BLOCK S2) COUNTRY: YEMEN
EXPLORATION GMBH

Mark indicators below with a ✓

- 1. Has the company made public statements in support of the EITI process in this country?
 Yes No
- 2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
- 3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
- 4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No
- 5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

1) THIS WAS NOT REQUIRED

Any other comments:

THE VALIDATION GUIDE

EITI COMPANY SELF-ASSESSMENT FORM COUNTRY-LEVEL

COMPANY:

Safer Exploration & Production Operation Co.

COUNTRY:

Yemen

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g. laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No
5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

COMPANY:

TOTAL E&P Yemen

COUNTRY:

Yemen

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No <http://www.total-ep-yemen.com/pages.aspx?pageid=7211>

2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No

3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No

4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No

5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

Total E&P Yemen is one of three members elected to represent the Extractive companies in Yemen multistakeholder group (MSG). Total E&P Yemen remains committed, together with the other MSG to ensure adherence to the EITI international process in order to allow Yemen to be validated. Total E&P Yemen, was the first company to submit the required data for the reconciliation process.

THE VALIDATION GUIDE

EITI COMPANY SELF-ASSESSMENT FORM COUNTRY-LEVEL

Yemen Company for
COMPANY: Investment in Oil and Minerals COUNTRY: Yemen

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No
5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

There was no public communication with media

Any other comments:

APPENDIX C: STAKEHOLDERS CONSULTED

Validation of the Extractive Industries Transparency Initiative in Yemen

APPENDIX 3: STAKEHOLDERS CONSULTED

Date	Organization	Name and Position
10 November 2010	Hart Nurse Ltd, Chartered Accountants	Chris Nurse, Partner
22 November 2010	Yemen EITI Secretariat	Mohammed Mohsen Al-Najjar, Secretary General and National Coordinator
22 November 2010	World Bank Yemen	Dr. Amin A. Mokbel Al-Khulaidi, Consultant
22 November 2010	Human Rights Information and Training Center (HRITC)	Tawfik Abdo Ahmed Albodajji, Sana'a Branch Manager
23 November 2010	Ministry of Planning and International Cooperation	Mansoor Ali Albashiry, General Manager of Economic Studies
23 November 2010	Yemen Oil and Gas Corporation (YOGC), Crude Oil Marketing Division	Abdullatif Al Arar, YCOMD Advisor; Awos Al-Ud, Director; Ali Al-Haddashi, LC and Programming Manager; Ahmed Hassan, Production and Export Monitoring Manager
23 November 2010	Total E&P Yemen	Mohammed Ageena, Non-Operated JV Manager
24 November 2010	Ministry of Oil and Minerals, Petroleum Accounts Department	Mohammed Y. Al-Mazhani, Assets and Materials Department Manager
24 November 2010	Yemen EITI Council (YEC)	Dr. Mohammed S. Mokbel, YEITI Council Chairman, and Ministry of Oil and Minerals, General Manager of Planning
24 November 2010	Supreme National Authority for Combating Corruption (SNACC)	Obeid Awadh AlHammer, Member, Head of Budgets and Tenders Section; Isa'a AL-Noaman, Senior Communications Officer
24 November 2010	Central Organization for Control and Auditing	Yahia Ali M. Zuhra, Assistant Deputy for the Economy
24 November 2010	Safer E&P Operations Company	Kamal Abdulkareem Al-Jouzi, Production and Operations Financial Analyst
24 November 2010	Vision Consulting	Majed Ali Al-Qubati
24 November 2010	OMV E&P	Mats Knutsson, HSEQ Manager; Hubert Pilgerstorfer, Business Development and Commercial Manager; David Ainscough, Audit Manager
25 November 2010	Canadian Nexen	Don Rettie, Vice President, Finance
25 November 2010	CSO Coalition in Support of YEITI	Abdul Qader Albanna, Yemen Observatory for Human Rights; Yousuf A. Aburas, Yemen Organization for Economic and Social Development; Saeed Abdulmomen, Elam Center for Transparency; Abdul Baset Almashwali, Yemen Foundation for Defense of Human Rights; Mohammed Mayoub, Social Democratic Forum, Mohamed M. Hassan, Arab Pharmacists Union
25 November 2010	Future Movement	Adel Al-Shoga'a

Appendix 3: Stakeholders Consulted

Date	Organization	Name and Position
26 November 2010	Yemen Institute for Development and Democracy (YIDD)	Ismail AL-Noamman
27 November 2010	Yemen EITI Secretariat	Mohammed Mohsen Al-Najjar, Secretary General and National Coordinator
27 November 2010	Ministry of Finance, Sector of Revenues, Oil Revenues Department	Abdussalam Shealan, General Manager; Fuad Derhim, Gas Sub-Director