

# Validation of Timor-Leste

## *For decision*

The Validation Committee recommends that the EITI Board agrees that Timor-Leste has made meaningful progress overall in implementing the 2016 EITI Standard.

## 1 Recommendation

The Validation Committee makes the following recommendation to the EITI Board:

*The Board agrees that Timor-Leste has made meaningful progress overall in implementing the 2016 EITI Standard. In taking this decision the EITI Board noted the strong commitment by the Government of Timor-Leste to EITI implementation and the effective oversight provided by the Timor-Leste Multi-Stakeholder Working Group (MSWG). The EITI Board highlighted that the EITI has provided a positive platform for discussion and debates about oil sector management, involving all stakeholders and the wider public. The EITI Board was encouraged by the government's efforts to make government systems transparent and urged the MSWG to work towards further mainstreaming EITI disclosures.*

*The Board's determination of Timor-Leste's progress with the EITI's requirements is outlined in the assessment card, below. The EITI Board agreed that Timor-Leste had not made satisfactory progress on requirements 1.2, 1.3, 1.4, 4.8, 4.9, 6.1 and 7.4. The major areas of concern relate to company engagement (#1.2), civil society engagement (#1.3), including capacity of civil society to carry out their duties (#1.4), disaggregation (#4.7), data quality (#4.9), social expenditures (#6.1) and documentation of impact (#7.4). The EITI Board disagreed with the validator on the following requirements: license registers (#2.3) and comprehensiveness (#4.1).<sup>1</sup>*

*Accordingly, the EITI Board agreed that Timor-Leste will need to take corrective actions outlined below. Progress with the corrective actions will be assessed in a second Validation commencing on **<date of Board decision + 12 months>**. Failure to achieve meaningful progress with considerable improvements across several individual requirements in the second Validation will result in suspension in accordance with the EITI Standard. In accordance with the EITI Standard, the Timor-Leste Multi-Stakeholder Group may request an extension of this timeframe, or request that Validation commences earlier than scheduled.*

*The Board's decision followed a Validation that commenced on 1 July 2016. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed an Independent Validator, who submitted a Validation Report to the EITI Board. Timor-Leste's Multi-Stakeholder Working Group were invited to comment throughout the process. The Multi-Stakeholder Working Group's comments on the Report were taken into consideration. The final decision was taken by the EITI Board.*

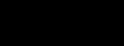






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<sup>1</sup> As per the VC minutes of 8 December 2016, available from [link].

## 2 Assessment card

The Validation Committee recommends the following assessment:

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

	The country has made no progress in addressing the requirement. The broader objective of the requirement is in no way fulfilled.
	The country has made inadequate progress in meeting the requirement. Significant elements of the requirement are outstanding and the broader objective of the requirement is far from being fulfilled.
	The country has made progress in meeting the requirement. Significant elements of the requirement are being implemented and the broader objective of the requirement is being fulfilled.
	The country is compliant with the EITI requirement.
	The country has gone beyond the requirement.
	This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.
	The MSG has demonstrated that this requirement is not applicable in the country.
-	No change in performance since the last Validation.
←	The country is performing worse than in the last Validation.
→	The country is performing better than in the last Validation.

### 3 Corrective Actions

The EITI Board agreed the following corrective actions to be undertaken by Timor-Leste. Progress in addressing these corrective actions will be assessed in a second Validation commencing on **<date of Board decision + 12 months>**:

1. In accordance with requirement 1.2, companies should demonstrate that they are fully, actively and effectively engaged in the EITI process. In accordance with requirement 8.3.c.i, the company constituency is requested to develop and disclose an action plan for addressing the deficiencies in company engagement documented in the initial assessment and validator's report within three months of the Board's decision, i.e. by **<date>**. The government should also ensure that there is an enabling environment for company participation with regards to relevant laws, regulations and administrative rules.
2. In accordance with requirement 1.3.a, civil society should demonstrate that they are able fully, actively and effectively engaged in the EITI process. Specifically, civil society should ensure that they are able to fully contribute and provide input to the EITI process and that they have adequate capacity to participate in the EITI. In accordance with requirement 8.3.c.i, the civil society constituency is requested to develop and disclose an action plan for addressing the deficiencies in company engagement documented in the initial assessment and validator's report within three months of the Board's decision, i.e. by **<date>**.
3. In accordance with requirement 1.4.i, civil society members of the multi-stakeholder group should ensure that they have the capacity to carry out their duties.
4. In accordance with requirement 4.7, the MSGW should ensure that the financial data disclosed is disaggregated by individual company, individual government entity and individual revenue stream. to the levels required by the EITI Standard.
5. In accordance with requirement 4.9.c, the MSGW and the Independent Administrator should ensure that future EITI Reports are produced in accordance with the 'agreed upon procedure for EITI reports' as outlined in the standard Terms of Reference for EITI Reports developed by the EITI Board. Specifically, the MSGW should ensure that:
  - a) The procedure for safeguarding confidential information do not disadvantage any stakeholders or create obstacles and delays to EITI Reporting;

- b) Future reporting templates are developed in consultation with the Independent Administrator and that there is no deviation from the templates approved by the MSG; and
  - c) A review of prevailing auditing and assurance practices is undertaken and that assurances are agreed upon prior to commencing data collection.
  - d) The Independent Administrator is viewed by all MSG members as credible, trustworthy, and technically competent.
6. In accordance with requirement 6.1, the MSWG should ensure that mandatory social expenditures are disclosed, and where possible, reconciled. Specifically, with regards to local content commitments provided in-kind, the MSWG should ensure that the nature and the deemed value of each in-kind commitment is disclosed.
7. In accordance with requirement 7.4.a.iv and v, the MSWG should ensure that future annual progress reports include an assessment of progress with achieving the objectives set out in its work plan, including the impact and outcomes of the stated objectives. The annual progress report should also include a narrative account of efforts to strengthen the impact of EITI implementation.

The MSWG is encouraged to consider the other recommendations in the Validator's Report and the International Secretariat's initial assessment, and to document the MSG's responses to these recommendations in the next annual progress report.