

Board decision on the Validation of Mozambique

Decision reference: 2017-51/BM-38/BP-38-6-A

On 25 October 2017, the EITI Board came to the following decision on Mozambique's status:

Following the conclusion of Mozambique's Validation, the EITI Board concludes that Mozambique has made meaningful progress overall in implementing the EITI Standard. The Board recognises Mozambique's efforts to embed transparency provisions in the legal framework governing the extractive sector, in the face of challenges including declining commodity prices and a public debt crisis. The Validation has demonstrated that the EITI process has provided useful information to the public domain and has contributed to technical improvements to record keeping and revenue collection systems.

The Board recognises Mozambique's achievement of satisfactory progress on requirements of the EITI Standard regarding the engagement of civil society (1.3), the EITI work plan (1.5), legal and fiscal framework and policy on contract disclosure (2.1 and 2.4), exploration, production and export data (3.1, 3.2 and 3.3), comprehensive disclosure of revenues (4.1), disaggregation and data timeliness (4.7 and 4.8) and documenting outcomes and impact of implementation (7.4).

In making its decision, the Board takes special note of the Government of Mozambique's efforts to ensure transparency provisions in the 2014 Petroleum and Mining Laws, which include provisions on contract disclosure and the establishment of a mining license cadastre. The Board encourages it to implement this statutory openness through accessible, regular disclosure of information on the sector to its citizens.

The Board notes the signs of renewed government commitment in taking the EITI process forward, which should result in stronger country ownership of the EITI and make it more effective in Mozambique.

Validation put the spotlight on the need for more comprehensive disclosures of the participation of the State in the oil, gas and mining sectors and the revenues that accrue from those activities to the State budget.

It has further highlighted opportunities to bring more transparency about how licences are allocated. The Board encourages Mozambique to progress their efforts to ensure that the transparency and accountability frameworks for the sector are implemented and to bring beneficial ownership disclosure to the sector. This will take strong government leadership.

Validation has also demonstrated that there are opportunities for stakeholders, in particular government and industry, to further use the EITI to address what they have identified as key challenges in the extractive sector. It has highlighted that the ongoing efforts to institutionalise the EITI, to set up an e-reporting system and to mainstream the EITI, can provide opportunities for further engaging industry in the process. The Board therefore encourages Mozambique to make progress on its efforts to refresh its multi-stakeholder group and to use the EITI to inform reforms in the sector.

The Board has determined that Mozambique will have 18 months to carry out corrective actions regarding the requirements relating to government and industry engagement (requirements 1.1 and 1.2), MSG governance (1.4), license allocations and register (2.2 and 2.3), state participation (2.6), in-kind revenues, barter agreements (4.3), transportation revenues (4.4), state-owned enterprises transactions (4.5), direct subnational payments (4.6), data quality (4.9), revenue management and expenditures (5.1), subnational transfers (5.2), mandatory social expenditures (6.1), quasi-fiscal expenditures by state-owned enterprises (6.2) economic contribution (6.3), public debate (7.1) and follow-up on recommendations (7.3). The Board believes that this will help build trust in the sector and the wider economy, demonstrate the commitment








of all stakeholder groups to transparency and accountable management of the country's natural resources, and ensure that there is reliable information available to help inform public debate and policy discussions related to the extractive sector.

Assessment card

The EITI Board agreed the following assessment card:

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

Legend to the assessment card

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

Recommendations

The EITI Board agreed the following corrective actions to be undertaken by Mozambique. Progress in addressing these corrective actions will be assessed in a second Validation commencing on **25 April 2019**:

1. In accordance with requirement 1.1, the government should demonstrate that it is fully, actively and effectively engaged in the EITI process. In accordance with requirement 8.3.c.i, the government is requested to develop and disclose an action plan for addressing the deficiencies in government engagement documented in the initial assessment and validator's report within three months of the Board's decision, i.e. by **25 January 2018**. The government should ensure appointment of government representatives on the MSG with the capacity to carry out their duties in terms of influences decision-making and properly informing their constituents.
2. 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 **25 January 2018**. The company constituency members may wish to establish a platform or use existing channels to disseminate EITI information to companies beyond the MSG, and should play an active role in setting objectives for EITI implementation in the country.
3. In accordance with requirement 1.4.a.ii, the MSG should ensure that its procedures for nominating and changing multi-stakeholder group representatives are public and confirm the right of each stakeholder group to appoint its own representatives. In accordance with requirement 1.4.b.ii and 1.4.b.iii, the MSG should ensure that stakeholders are adequately represented and undertake effective outreach activities with civil society groups and companies, including through communication such as media, website and letters, informing stakeholders of the government's commitment to implement the EITI, and the central role of companies and civil society. Members of the MSG should liaise with their constituency groups. In accordance with requirement 1.4.b.vi, the MSG should ensure an inclusive decision-making process throughout implementation, particularly as concerns industry and civil society. Each constituency should ensure that their representatives' attendance at MSG meetings is consistent and at sufficiently high level to allow the MSG to take decisions and follow up on agreed matters.
4. In accordance with requirement 2.2.a, Mozambique should ensure annual disclosure of which mining, oil, and gas licenses were awarded and transferred during the year under review, highlighting the processes for transferring licenses, technical and financial requirements and any non-trivial deviations from the applicable legal and regulatory framework governing license awards and transfers. The MSG could further consider tasking the Independent Administrator to provide an evaluation of the licensing process and make recommendations for its improvement.
5. In accordance with requirement 2.3, Mozambique should also ensure that the license holder names, dates of application, award and expiry, commodity(ies) covered and coordinates for all petroleum licenses held by material companies are publicly available. Where this information is

already publicly available, it is sufficient to include a reference or link in the EITI Report. Where such registers or cadastres do not exist or are incomplete, the EITI Report should disclose any gaps in the publicly available information and document efforts to strengthen these systems.

6. In accordance with requirement 2.6.a, Mozambique should provide an explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), including the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and third-party financing. The government should also, in accordance with requirement 2.6.b, ensure annual disclosure on the level of ownership held by the government and SOEs in mining, oil and gas companies operating within the country's oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership. This information should include details regarding the terms attached to their equity stake, including their level of responsibility to cover expenses at various phases of the project cycle, e.g., full-paid equity, free equity, carried interest. The government should also provide a comprehensive account of any loans or loan guarantees extended by the state or SOEs to mining, oil, and gas companies operating in the country. The MSG should discuss and document its definition of SOEs taking into account national laws, government structures and ongoing reforms.
7. In accordance with the requirement 4.2, the MSG and the Independent Administrator are required to ensure annual disclosure of the sale of the state's share of production or other revenues collected in kind, and where these are material, comprehensively disclose volumes sold and revenues received from these sales. The published data must be disaggregated by individual buying company and to levels commensurate with the reporting of other payments and revenue streams (4.7). The MSG should ensure that EITI Reports consistently and comprehensively describe the rules and practices regarding the management of revenue from the sale of the state's share of gas and revenues collected in-kind. This should include details on marketing of these resources to domestic buyers, unless considered immaterial by the MSG. The Independent Administrator should provide a clear opinion on the comprehensiveness of the reported data.
8. In accordance with requirement 4.3, the MSG and the Independent Administrator are required to consider whether there are any agreements, or sets of agreements involving the provision of goods and services (including loans, grants and infrastructure works), in full or partial exchange for oil, gas or mining exploration or production concessions or physical delivery of such commodities. Where the MSG concludes that these agreements are material, the MSG and the Independent Administrator are required to ensure that the EITI Report addresses these agreements, providing a level of detail and transparency commensurate with the disclosure and reconciliation of other payments and revenues streams. Where reconciliation of key transactions is not feasible, the MSG should agree an approach for unilateral disclosure by the parties to the agreement(s) to be included in the EITI Report. The MSG should clarify whether EITI reporting comprehensively addresses the possible existence of such agreements not covered in the report, and ensure that it is clearly stated if they do not exist.
9. In accordance with requirement 4.4, the government and the MSG should ensure that material revenues collected by the government and SOEs from the transportation of oil, gas and minerals are disclosed. This could include a description of the transportation arrangements including the product, transportation route(s), and the relevant companies and government entities, including

SOE(s), involved in transportation. The MSG may also wish to ensure disclosure of the definitions of the relevant transportation taxes, tariffs or other relevant payments, and the methodologies used to calculate them, disclosure of tariff rates and volume of the transported commodities, as well as disclosure of revenues received by government entities and SOE(s), in relation to transportation of oil, gas and minerals (4.4.a-d).

10. In accordance with requirement 4.5, the MSG must ensure that the reporting process comprehensively addresses the role of SOEs, including material payments to SOEs from extractives companies, and transfers between SOEs and other government agencies.
11. In accordance with requirement 4.6, it is required that the MSG establish whether direct payments from companies to subnational governments, within the scope of agreed revenue streams, are material. Where material, the MSG must ensure that direct company payments to subnational government entities are disclosed and reconciled in future EITI Reports.
12. In accordance with Requirement 4.9.a, the EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. In accordance with requirement 4.9.b.iii and the standard Terms of Reference for the Independent Administrator agreed by the EITI Board, the MSG and Independent Administrator should:
 - a. examine the audit and assurance procedures in companies and government entities participating in the EITI reporting process, and based on this examination, agree what information participating companies and government entities are required to provide to the Independent Administrator in order to assure the credibility of the data in accordance with Requirement 4.9. The Independent Administrator should exercise judgement and apply appropriate international professional standards in developing a procedure that provide a sufficient basis for a comprehensive and reliable EITI Report. The Independent Administrator should employ his/her professional judgement to determine the extent to which reliance can be placed on the existing controls and audit frameworks of the companies and governments. The Independent Administrator's inception report should document the options considered and the rationale for the assurances to be provided.
 - b. ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness and reliability of the report.
13. In accordance with requirement 5.1.a, the MSG should ensure that the allocation of extractives revenues not recorded in the national are explained, with links provided to relevant financial reports as applicable.
14. In accordance with requirement 5.2.a, the MSG should ensure that the specific formula for calculating transfers to individual local governments be disclosed, to support an assessment of

discrepancies between budgeted and executed subnational transfers. The MSG is encouraged to reconcile these transfers.

15. In accordance with requirement 6.1.a, the MSG should agree a clear distinction between mandatory and voluntary social expenditures prior to data collection and ensure that material mandatory social expenditures are comprehensively disclosed in future EITI Reports. Where beneficiaries of mandatory social expenditures are a third party, i.e. not a government agency, the MSG should ensure that the name and function of the beneficiary be disclosed. The MSG should provide a comprehensive overview of existing social expenditures by oil, gas and mining companies, and further clarify how disbursement from social funds are being made and the basis for selection of beneficiaries.
16. In accordance with requirement 6.2, the MSG should consider the existence and materiality of any quasi-fiscal expenditures undertaken by extractives SOEs and their subsidiaries, ensuring that all material quasi-fiscal expenditures are disclosed in future EITI Reports. Should material quasi-fiscal expenditures exist, the multi-stakeholder group is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures.
17. In accordance with requirements 6.3, the MSG should ensure that future EITI Reports provide the contribution of the mining, oil and gas sectors to GDP in absolute terms and an estimate of informal sector activity (6.3.a), comprehensive figures on exports from the extractive industries in absolute terms and as a percentage of total exports (6.3.c), as well as comprehensive extractives employment figures, in absolute and relative to total employment (6.3.d) for the year(s) under review.
18. In accordance with requirement 7.1, the MSG must ensure that EITI Reports are comprehensible, actively promoted, publicly accessible and contribute to public debate. Key audiences should include government, parliamentarians, civil society, companies and the media. The MSG should discuss the role the EITI could play in achieving national priorities and how it can generate public debate around natural resource use.
19. In accordance with requirement 7.3, the MSG is required to take steps to act upon lessons learnt; to identify, investigate and address the causes of any discrepancies; and to consider the recommendations resulting from EITI reporting. The MSG should ensure more systematic follow-up on the EITI Report recommendations and ensuring that these highlight gaps identified through the reporting process.

The MSG 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.

This decision can be found online under: <https://eiti.org/mozambique-2017-validation>

The documentation on this Validation (Validation Report, MSG Comments and initial data collection) can be found here: <https://eiti.org/document/validation-of-mozambique-2017-documentation>