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PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF(US\$ 0.38 MILLION EQUIVALENT)

TO

ETHIOPIA

FOR A

Implementation of the Extractives Industries Transparency Initiative

21st October, 2016

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CURRENCY EQUIVALENTS

(Exchange Rate Effective {Date})

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CPS	Country Partnership Strategy
CSO	Civil Society Organization
EGPS	Extractives Global Programmatic Support
EEITI	Ethiopian Extractive Industries Transparency Initiative
FM	Financial Management
GRS	Grievance Redress Service
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
MDTF	Multi-Donor Trust Fund
NSC	National Steering Committee
PDO	Project Development Objective
TA	Technical Assistance

Regional Vice President:	Makhtar Diop
Country Director:	Carolyn Turk
Global Practice Senior Director:	Anna Bjerde
Practice Manager:	Christopher Gilbert Sheldon
Task Team Leader:	Kirsten Lori Hund

ETHIOPIA
Implementation of the Extractives Industries Transparency Initiative
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DATA SHEET
ETHIOPIA
Ethiopia EITI (Grant II) PROJECT
Small RETF Grant Project Paper

Region: AFRVP

Unit: GEEX2

Basic Information									
Date:	21 st October, 2016	Sectors:	Energy and mining, Oil and gas						
Country Director:	Carolyn Turk	Themes:	Public Sector Governance						
Practice Manager/Global Practice Senior Director:	Christopher Gilbert Sheldon / Riccardo Puliti	EA Category:	C						
Project ID:	P159798								
Instrument:	Investment Project Financing								
Team Leader(s):	Kirsten Lori Hund								
Recipient: Ministry of Finance and Economic Cooperation, Federal Democratic Republic of Ethiopia									
Executing Agency: EEITI National Secretariat									
Contact:	Merga Kenea	Title:	Head, National EEITI Secretariat						
Telephone No.:	00251116463426	Email:	mergakg@yahoo.com						
Project Implementation Period: 20 Months									
Start Date:		06 December, 2016			End Date: September 14, 2018				
Expected Effectiveness Date:		06 December, 2016							
Expected Closing Date:		September 14, 2018							
Project Financing Data(US\$M)									
Total Project Cost :		0.375			Total Financing : 0.375				
Financing Gap : 0									
Financing Source								Amount(US\$M)	
BORROWER/RECIPIENT								0.375	
Others								0	
Financing Gap								0	
Total								0.375	
Expected Disbursements (in USD Million)									
Fiscal Year	FY2016	FY2017	FY2018						
Annual	0	0.200	0.175						
Cumulative	0	0.200	0.375						
Project Development Objective(s)									
The development objective of the grant is to support the effective implementation of the Extractive Industries Transparency Initiative in									

Ethiopia.				
Components				
Component Name			Cost (USD Millions)	
Capacity building			0.075	
Preparation of Reports			0.20	
Awareness-raising / Communication			0.060	
Operational Support for the Executive Secretariat			0.040	
Compliance				
Policy				
Does the project depart from the CAS /CPS/CPF in content or in other significant respects?			Yes []	No [x]
Does the project require any exceptions from Bank policies?			Yes []	No [x]
Have these been approved by Bank management?			Yes []	No [x]
Is approval for any policy exception sought from the Board?			Yes []	No [x]
Does the project meet the Regional criteria for readiness for implementation?			Yes [x]	No []
Safeguard Policies Triggered by the Project			Yes	No
Environmental Assessment OP/BP 4.01				x
Natural Habitats OP/BP 4.04				x
Forests OP/BP 4.36				x
Pest Management OP 4.09				x
Physical Cultural Resources OP/BP 4.11				x
Indigenous Peoples OP/BP 4.10				x
Involuntary Resettlement OP/BP 4.12				x
Safety of Dams OP/BP 4.37				x
Projects on International Waters OP/BP 7.50				x
Projects in Disputed Areas OP/BP 7.60				x
Legal Covenants				
Name	Recurrent	Due Date	Frequency	
Description of Covenant				
Team Composition				
Bank Staff				
Name	Title	Specialization	Unit	UPI
Kirsten Lori Hund	Sr. Mining Specialist	Mining	GEEX2	419057
Shimelis Woldehawariat Badisso	Sr. Procurement Specialist	Procurement	GGO01	342655

Abiy Demissie Belay	Sr. Financial Management Specialist	Financial Management	GG025	335917
Lydia Mesfin Asseres	Consultant	Operations	GEEX1	459054
Maman-Sani Issa	Regional Safeguards Advisor	Safeguards	OPSPF	220734
Nathalie S. Munzberg	Regional Safeguards Advisor	Safeguards	OPSPF	132625
Sridar Padmanabhan Kannan	Consultant	Mining	GEEX2	407297

Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments

I. STRATEGIC CONTEXT

A. Country Context

1. Ethiopia is a large and diverse country. It is located in the Horn of Africa and is a land-locked country with an area of 1.1 million km². Its bio-physical environment includes a variety of contrasting ecosystems, with significant differences in climate, soil properties, vegetation types, agricultural potential, biodiversity and water resources. Ethiopia is a country of many nations, nationalities and peoples, with a total population of 91.7 million (2012). Only 17 percent of the population lives in urban centers, the great majority of them in Addis Ababa. At a current annual growth rate of 2.6 percent, Ethiopia's population is estimated to reach 130 million by 2025, and is projected by the UN to be among the world's top ten, by 2050. Ethiopia is vulnerable to terms of trade shocks from international food and fuel prices, and to large domestic weather-related shocks as the 2011/12 East Africa drought demonstrated.
2. Ethiopia has a federal, democratic government system, established in the early 1990s, with nine autonomous states (regions) and two chartered cities. Decentralization of governance to the regional and district (woreda) levels has been actively pursued, intensively since 2003. The Ethiopian People's Revolutionary Democratic Front (EPRDF) has been in power in Ethiopia since 1991. EPRDF comprises four regionally-based parties from the four major regions (Amhara, Oromia, Southern Nations, Nationalities and Peoples (SNNPR), and Tigray). Ethiopia follows a developmental state model, with a strong role for the Government of Ethiopia (GoE) in many aspects of the economy. The manufacturing sector remains small, although efforts are being made to increase its size. The development model adopted by GoE relies heavily on high levels of largely government-led investments, but faces low saving rates and limited availability of domestic resources. However, despite double-digit economic growth, more efforts are required on the poverty reduction front.

B. Sectoral and Institutional Context

3. Ethiopia's growth rate has far surpassed the regional average of Sub-Saharan Africa. Economic growth in Ethiopia has been very strong over the past decade, and the trend continues with reported annual GDP growth of 9.9% in 2013, and forecast annual GDP growth of 10.2% for the years 2014 and 2015 respectively. It is even more impressive when compared to the regional Sub-Saharan African annual growth rate of 4.9% (2013), and forecasts of 4.6% (2014), and 3.4% (2015). Ethiopia suffers from a significant trade deficit. One possible option of addressing this deficit is to increase the value of exports and reduce the value of imports. Given this scenario, the extractives sector becomes especially important to the country's economic health. For instance, during the years 2011- 2014, the contribution of exports to the G.D.P ranged from 16.7% (2011) to 11.6% (2014), while expenditure on imports ranged from 31.5% (2011) to 29.1% (2014) of the G.D.P.
4. Minerals contribute majorly to exports, with gold and gemstones being the main exported commodities. Exports of gold alone made up around 17% of Ethiopia's exports in FY 2010-11, increasing to 21% in the year 2015. Imports of fossil fuels made up 17.3% of Ethiopia's total imports of goods in 2014. Therefore, improving governance in the extractives sector, including by adding value to gold and gemstones prior to export, and proper management of potential domestic oil and gas discoveries can go a long way in addressing Ethiopia's trade deficit. It is to be noted that there would be a large amount of inputs initially required through FDI in the mining sector to build the mines that will eventually generate the exports. Thus in the short run, development of large scale mining could increase imports but it would increase exports in the long run.
5. Ethiopia is a low income country, but has progressed on poverty alleviation over the past decade. The country's Gross National Income per capita has steadily increased from USD 390 (2011) to USD 550 (2014). However, it is still substantially lower than the regional average of USD 1,646 . The poverty headcount ratio at USD 3.10 a day reduced from 68.3% of the population in 2011 to

67% of the population in 2012. Effective poverty alleviation requires the benefits of the economic growth to trickle down to the poor, and the artisanal mining sector (ASM), which employs an estimated 500,000 to 1 million workers, is potentially a vehicle of change through which poverty alleviation measures can be implemented.

6. Mining has occupied an important role in the Growth and Transformation Plans of Ethiopia. GoE has recently finished implementing its Growth and Transformation Plan (GTP; 2010/11-2014/15), which had set a long-term goal of becoming a middle-income country by 2023, with growth rates of at least 11.2 percent per annum during the plan period. Although the planned target of 11.2% per annum was aspirational, the plan period still witnessed a high growth rate mentioned above. Having gone through the GTP plan period, the country has finalized a subsequent 'GTP2' plan for the next plan period.
7. The focus for the mining sector in GTP 1 were to create a favorable environment for private investors for exploration and development, put in place a comprehensive policy and regulatory framework that create an institutional framework conducive for the development of the sector's contribution to the economy as well as collect, analyze and interpret basic geo-science information for potential investors. Under GTP2, The mining sector remains a priority of the government in the Second Growth and Transformation Plan. The main strategic directions of the mining sector during the GTP II are expanding the production of minerals for foreign exchange generation and import substitution for local industries. The details of GTP2 on the use of local gas reserves was not available for research, and is therefore not mentioned herein.
8. The major objectives of the GTP2 plan for the mining sector are: improving policy, legal frameworks, regulatory and working systems; Adding value to minerals, producing minerals inputs for the manufacturing sector development; enabling the mining sector to meet national and international environmental standards and regulations, and expanding the geo-sciences mapping coverage of the country both in quality and accessibility.
9. However, the GTP 1 and 2 do not delve into detail on how the potential discoveries in the natural gas sector can be leveraged for import substitution. Considering this aspect of the extractives sector as well will help the government attain its broader GTP2 objectives.
10. The Extractive Industries sector in Ethiopia has been developing at a brisk pace. Exploration for oil and natural gas is currently taking place in a number of areas in Ethiopia, including in parts of the Ogaden Basin in Southern Ethiopia, Afar in Northeastern Ethiopia, Southern Rift Basin, and Main Ethiopian Rift Basin regions. According to the government, the wells in the Calub and Hilala fields in the Ogaden Basin should show deposits of 4.7 trillion cubic feet of liquid natural gas (LNG) and 13.6 million barrels of associated liquids. The deposits were discovered in the 1970s. Foreign firms have acquired licences to explore in more than 40 blocks in Ethiopia over the past four years, mostly in the southeast near Somalia. The government of Ethiopia has also recently established a State-owned oil and gas company for further exploration and production, especially of natural gas.
11. In mining, there are some 15-20 international exploration companies currently active in Ethiopia. Gold is Ethiopia's main mineral export and has been mined since ancient times, primarily as alluvial or free gold. At present, Ethiopia has a single large-scale gold mine, Lega Dembi, in the southern area of the country, owned by Midroc (98%) and the Ethiopian government (2%). Another advanced project exists at Tulu Kapi, in the west central area of the country, owned by Nyota Minerals Limited. Exploration for gold is also taking place in Oromia and Tigray States. In addition to gold, Ethiopia has reserves of copper, potash, and natural gas. On a global scale, Ethiopia is also one of the five largest producers of Tantalum in the world (reserve estimates are unknown). Tantalum, classified as a conflict mineral for the purposes of the Dodd-Frank Act of the U.S., is a new-age metal. Tantalum use has been estimated at more than 50% for electronics applications of which capacitors are the leading end use. Tantalum will be used widely as the world moves towards using renewable energy sources for its consumption. Other key minerals produced in Ethiopia include niobium, tantalite, cement, salt and gypsum, clay and shale, and soda ash. There are also a

number of domestic companies mining industrial minerals, mainly cement raw materials, on a smaller scale.

12. The Mining Industry is a source of high employment. The Strategic Mining Sector Assessment ('SMA') study conducted by the World Bank and other development partners concluded that the large scale mineral sector can contribute a probable USD 322 million in revenues and create around 4300 jobs; a number that may possibly extend upto USD 480 million, and around 8000 jobs respectively. The Artisanal and Small-Scale Mining Sector ('ASM') is also a major source of employment in Ethiopia and shows scope for development, currently employing an estimated 300,000 to 350,000 people directly, with 5-7 million people being dependent upon it for their livelihood.
13. The first EITI Report has increased transparency in the sector. According to the report, in 2014 the mining sector's production value was a little more than one per cent of the GDP. The extractive sector represented more than 14% of the country's export earnings for the 2013/14 fiscal year. Gold is the main mineral export. Export values of gold reached USD 456 million in 2014, a more than hundred-fold increase from 2001. Total revenues received from the extractive industries amounted to ETB 3,123 million in EFY 2006. The Ethiopian Revenues and Customs Authority ('ERCA') accounted for 80.5% of the total revenue stream generated by the sector, followed by MoM and then MoF, accounting respectively for 12.8% and 2.9% of total extractive industry revenues.
14. Mineral production data for the reporting period received from MoM covered only six types of minerals. The data from reporting extractive companies included in the reconciliation scope provide a much larger array of minerals. However, from amongst the reported commodities, the value of gold production forms 82.7% of the value of the total value of the sector. An amount of ETB 305 million representing 11% of Government revenues from the mining sector remained unreconciled.
15. The World Bank is providing comprehensive support to development of the Extractives Sector in Ethiopia. The interventions began with a series of studies, beginning with the SMA, which identified major areas of intervention in the extractives sector. Following this study, in-depth research into the policy, legal and regulatory, and institutional reforms and capacity building in the oil and gas, mining and artisanal gemstones sectors was completed in 2016, funded by the Extractive Industries Technical Advisory Trust Fund (EI-TAF). The EI-TAF funded project provided the basis for the Government of Ethiopia to identify and request further IDA based support from the World Bank Group in FY 2018 for the entire extractives sector. This request was the result of the government recognizing the importance of the sector for inclusive growth, economic development, diversification and creating a favorable balance of trade. Apart from these projects, the World Bank is also implementing a JSDF funded recipient executed grant for USD 3 million to support Artisanal Miners in Ethiopia (P125487).
16. The Ethiopian Extractive Industries Revenue Transparency Initiative seeks to increase transparency in the sector. Apart from the above-mentioned efforts, the World Bank Group, since 2011, through the erstwhile Multi-Donor Trust-fund (EITI-MDTF), and moving forward through the EGPS Trust Fund, has been supporting the implementation of EITI in Ethiopia. EITI is a global standard in transparency and accountability in the Extractives Sector, the details of which are available at www.eiti.org. The World Bank's support has enabled Ethiopia to become a candidate with the Extractive Industries Transparency Initiative (EITI) on 19 March 2014. The Ethiopia EITI 2014 Annual Activity Report (published July 2015) outlines progress made with implementing the EITI in the country. The first Ethiopia EITI Report covering fiscal year July 2013 - July 2014 was published in February 2016. The report makes data on the country's extractive sector available for the first time and shows that the mining sector contributed USD 131 million to government revenue in the fiscal year 2013 - 2014. This was 2.1% of total government revenue in 2014. Ethiopia must commence EITI validation by 1st April, 2018.
17. The track record of EEITI implementation thus far has been satisfactory. Some salient points to note are:

- (a) Ethiopia's first annual and EITI reports were published on time, and the disbursement rate for the recipient execute grant against the activities of the annual activity plan was very high. This is a good precedent, especially given the capacity constraints that MoMPNG faces in Ethiopia, and shows that the EEITI Secretariat, though housed in the MoMPNG, has a better capacity to receive and disburse bank funds going towards recipient executed projects. There is reason to believe that a similar efficient execution of future projects will be likely.
 - (b) A NSC (National Steering Committee) was established that has collaborated effectively to make sure the reports and other activities were of good quality. Most importantly, the Civil Society constituency of the NSC has been replenished through a free and fair election process despite the prevailing laws of Ethiopia that curb Civil Society participation in advocacy activities. The NSC, as part of their communication and outreach activities, of a number of workshops in all mineral-rich regions: bringing together Large Scale Miners, Small Scale Miners, woreda representatives, regional government representatives, civil society, etc., to discuss local mineral sector governance and other key issues related to the sector. Subsequently, concerns raised in the regions have been brought to the attention of the Minister during EITI-NSC meetings. This is an innovative approach towards mainstreaming EITI into sector governance that proves the added value EITI can bring.
 - (c) However, while the publication of the first EEITI Report is an important milestone, it is not an end by itself. Several steps now remain in disseminating the report and engaging upon the recommendation of the report with relevant stakeholders. Communications with all stakeholders, and allowing for continued free and fair engagement of civil society on the EEITI Report and process will be vital while heading towards EITI Validation.
18. Civil Society Organizations play an essential role in implementing EITI; the EITI Standard, 2013 requires them to be involved in several steps and roles during the implementation process. The WBG is encouraged by the interest shown towards EEITI by CSOs in Ethiopia. The CSOs, led by the CSO representatives in the multi-stakeholder National Steering Committee, have drafted an action plan to support the implementation of EEITI. The World Bank Group is currently supporting activities identified in the said action plan through its direct support initiative to build capacity in CSOs. Through a phased approach using two technical advisory facilities, support was provided directly to CSOs, acknowledging the fact that imparting direct training to CSOs would benefit a larger independent CSO constituency around EITI. Phase I of the activities had involved the World Bank, through the Energy and Extractives, and Governance Global Practices, imparting training directly to CSOs, and successfully form a CSO network on EEITI. The network of CSOs on EEITI now numbers more than 40. Phase II of the activities required ongoing training at the various regions being imparted through field-based consultants. To implement Phase II of the activities, PACT- an international association with extensive international experience in sustainable and transparent natural resource management, was hired under the direct support program as a facilitator to organize the training of local CSOs by expert consultants on EEITI. The said trainings have been performed satisfactorily. PACT has also performed a desktop review of mapping local CSOs for the purposes of EEITI. However, certain other activities from the CSO Action plan, which were to be performed by PACT, were left unfinished due to misunderstandings. These included (i) Field visits to complete the CSO mapping on EEITI; (ii) creation of a communication plan for the CSO-MSG representatives to communicate with the broader CSO network, and (iii) creation of a dedicated forum within the official EEITI website, in which the CSOs can engage in a free and fair manner.
19. The laws of Ethiopia have a chilling effect on the functioning of CSOs and lead to their self-censorship. Amongst the directly funded activities, the workshops delivered by the World Bank Group remain the main comfortable source of information for the MSG. Onward training of CSOs by other CSOs and further engagement in this sphere amongst CSOs inter-se has been severely restricted due to the laws of Ethiopia, particularly the 'CSO Proclamation'. The CSO Proclamation

classifies CSOs on the basis of the origin of their funding, and restricts CSOs engaging in advocacy from accepting foreign funding beyond a nominal percentage of their total funding. This, therefore, restricts the CSOs engaging in advocacy to look for domestic sources of funding, which are very limited. Therefore, Ethiopia stands the risk of not being compliant with the EITI Standard, 2016 and the associated 'EITI CSO Protocol' governing the functioning of civil societies. But, given the stringent local context, the government has been overall supportive of the engagement of CSOs on EEITI.

20. The government intends to channel all donor and development partner funds on CSO engagement through the EEITI National Steering Committee. The training of CSOs on EITI will also be overseen by the National Steering Committee. Implementation of EEITI is sustainable from a financial, as well as political point of view. In terms of interest in EEITI, the highest levels of governance in Ethiopia, including the Prime Minister's office, Ministry of Finance, and MoMPNG are aware of its implementation and are working to make it a success. In financial terms, donors that are interested in supporting EEITI implementation include Global Affairs Canada, DFID (U.K.), and the European Union. The government has also allocated some of its limited available finances towards the initiative, showing State ownership of the initiative- an amount of \$20,000 was allotted towards its implementation by MoMPNG in the calendar year 2016.

C. Higher Level Objectives to which the Project Contributes

21. The World Bank Group's Country Partnership Strategy (CPS, FY13-16) builds on the progress achieved by Ethiopia in recent years and aims to help GoE address structural transformation and assist in the implementation of the GTP. The most recent version of the CPS, which aligns to GTP2 is still being finalized. The CPS framework includes two pillars. Pillar One, 'Fostering competitiveness and employment', aims to support Ethiopia in achieving: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity; (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar Two, 'Enhancing resilience and reducing vulnerabilities' aims to support Ethiopia in improving the delivery of social services and developing a comprehensive approach to social protection and risk management.
22. Good governance and state building form the foundation of the CPS. In line with the GTP, gender and climate change have been included as cross-cutting issues to strengthen their mainstreaming across the portfolio. The programs of IFC and MIGA are well aligned with the CPS framework, contributing mainly to the strategic objectives under Pillar One. The World Bank's Country Partnership Strategy for Ethiopia ('CPS') establishes priority areas of targeted reform in the country. The CPS notes that to succeed in meeting the desired GTP goals and sustaining high economic growth, the following requirements, inter-alia, need to be met: (i) increased productivity and competitiveness of the industrial and services sectors for rapid and sustained job creation; and (ii) improved government effectiveness.
23. Implementing EITI resonates with the CPS. The increased transparency in the extractives sector arising from implementing EITI will help support pillar one of the CPS, i.e. 'fostering competitiveness and employment' by making the sector more competitive and attractive for investments. Pillar Two, i.e., 'enhancing resilience and reducing vulnerabilities' is also supported through the increased tripartite dialogue between the industry, citizens, and government on sector issues. As a result, any risks associated with operation of extractive industries will be mitigated.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

24. The development objective of the grant is to support the effective implementation of the Extractive Industries Transparency Initiative in Ethiopia.

Project Beneficiaries

25. The immediate beneficiaries of the project will be institutions comprising EEITI. These include, firstly, the three constituencies within the National Steering Committee (Multi-Stakeholder Group), the government, civil society organizations and companies, as well as their wider constituency groups. The success of EEITI, if compliant status is validated, will contribute to the enhancement of the governance of extractives. In this case the broader public in Ethiopia will benefit. Moreover, the implementation of EEITI in Ethiopia includes activities undertaken at sub-national level, in order that extractives affected communities derive the benefits of transparency and improved accountability which EEITI is intended to advance. Stakeholders also include donor partners, who are advocates of EEITI, as well as financing partners in some cases.

The specific beneficiaries include:

26. **Government** (comprising Ministry of Finance and Economic Development, ERCA, Ministry of Mines, Petroleum and Natural Gas and other relevant institutions, including audit authorities and the legislature): The relevant government agencies that are mandated to monitor and regulate the extractive industries are expected to continue generating and reporting the information necessary for the annual EEITI Reports in an accurate and timely fashion.
27. **Companies:** Companies in the extractives sector are expected to continue providing a full and accurate report of all payments made to the government, including social expenditures and financial provisions made for environmental rehabilitation. It is also encouraged to continue disclosing contracts stating the terms attached to the exploration and production of minerals, oil, and gas. In the process, the industry is expected to recommend policies and reforms to achieve the objectives of EEITI implementation.
28. **Civil Society Organizations.** Civil society's role is to monitor EEITI implementation, evaluate the EEITI report, and provide essential inputs to the EEITI process through its involvement on the National Steering Committee. Civil society is expected to continue encouraging and leading the public debate on all matters related to EEITI implementation in particular and extractive industry issues in general. It also plays a role in advocating for and representing the interests of vulnerable groups such as herders and extractives-affected communities.

PDO Level Results Indicators

29. Progress in achieving the PDO will be measured by the following key results indicators:
- (a) Publication of EITI Reports on time and in compliance with the EITI Standard
 - (b) EITI Report recommendations addressed by the NSC

III. PROJECT DESCRIPTION

A. Project Components

30. A description of the activities to be performed is as follows:

(a) Component I: Capacity building and Training

- (i) This component will involve organizing training activities for key stakeholders to increase their understanding of the EITI and to encourage their participation in the implementation of the Initiative. Key stakeholders include National Steering Committee representatives, especially from civil society and broader civil society organizations outside the Committee (both at the local/municipal and national levels) that are involved in transparency and extractive industry issues, business and professional associations, and the media, as well as public institutions relevant to extractive industries and/or transparency, access to information, accountability and Open Government more broadly. It will also involve organizing knowledge exchanges with other EITI implementing countries, particularly in Africa.
- (ii) In particular, Capacity building workshops for EITI stakeholders will be completed for:
 - Publishing Roadmap for declaring beneficial ownership by January, 2017
 - Improving participation of Stakeholders
 - Reporting regionally on contributions of Artisanal and Small scale Mining (ASM)
 - Increasing reporting disclosures along the gold-buying value chain for ASM, i.e. reporting on the further transfers of gold from the Central Bank, and other onward transferees.
 - Exchange missions to EITI-implementing countries (2017- 2018)

(b) Component II: Preparation of Reports

- (i) This component will involve financing the EITI National Steering Committee in conducting ongoing scoping studies on EITI implementation, and creation of an EITI Reporting Template- including with regard to scope of the reporting sectors; level of detail of the reconciliation/audit process; defining materiality with regard to payments and revenue streams; degree of data disintegration; inclusion/non-inclusion of subnational, in-kind, and social payments; etc. It will also involve financing the hiring of an Independent Administrator to prepare the subsequent EITI reports, including the reconciliation of payments made by mining and oil companies to the Government and direct payments by mining companies to specific municipalities. Lastly, it will involve financing the publication of other reports relating to EITI, such as the annual activity reports, beneficial ownership roadmap, etc.
- (ii) In particular, the following activities shall be completed:
 - Second EITI Report completed and published
 - Third EITI Report completed and published
 - Fourth EITI Report completed and published
 - Annual Activity Reports published 1st July of each year: (2017, 2018)
 - Beneficial Ownership Roadmap published (January, 2017)

(c) Component III: Awareness-raising / Communication

- (i) This component shall include implementation of the EITI Communications strategy by a communication company to communicate (i) the merits of transparency of mining, oil and gas revenues; and (ii) the EITI process in Ethiopia and the results of the first EITI Report at

the municipal and community level, with the objective of provoking public awareness and debate over these issues. Other EITI dissemination activities, including postings in government websites, newspaper articles, press conferences, TV shows and radio spots will also be carried out. An EEITI website will be supported, along with required contents showing progress on implementation periodically. Outreach activities by civil society engaged in EITI in rural Ethiopia shall also be supported

(ii) In particular, the following activities shall be supported:

- Website of EEITI properly established and administered (2017-2018)
- Implementing EEITI Communications Strategy (2017-2018)
- Disseminate EITI Report findings widely using various media / meetings / workshops in the Communications Plan (2017-2018)
- Broad dissemination of results of EITI Reports at sub-national level (2017-2018)

(d) While performing the above-mentioned activities, gender-based issues shall be mainstreamed into the grant implementation through the following steps:

(i) **Representation of Women in the NSC:** Ensuring that men and women's groups are well represented in the Multi- Stakeholder Groups (MSGs) with an initial minimum target representation of 20% of the entire National Steering Committee across all stakeholder groups, covering not just civil society but also government and industry participation. Women will be included not only as members, but also in leadership positions to avoid the risk of tokenism where women are included but not given equal standing as men. Though the NSC has already been formed, the minimum target representation for women will be encouraged while replenishing/ refreshing the MSG membership. As the EITI implementation in Ethiopia is overseen and monitored by the NSC, this will help ensure that the implementation monitoring team is also gender inclusive.

(ii) **Gender-Inclusive Participation in Trainings, Workshops and other activities:** In funding workshops for civil society organizations, it is important to ensure that the Secretariat has a gender inclusive list in order that men and women participate, contribute and benefit from awareness raising sessions/programs.

(iii) **Gender-Informed Communication Implementation Plan:** In considering the EITI communication and dissemination campaign, easily accessible communication medium will be used which can reach both men and women as target groups in the EITI engagement. For those in remote locations, use of the local leadership to pass messages as well as radio will be explored.

(e) **Operational Support**

(i) This component will involve providing operational support to the EEITI Implementation Secretariat, including the procurement of personnel and the purchase of office equipment. It will also involve provision of financial support to civil society members of the National Steering Committee to enable them to participate in the Committee's meetings (i.e. to cover transportation and accommodation costs) if they are based in the same city as the said events. Lastly, this component will finance the operating costs of workshops, including travel costs of the civil society members that will monitor the implementation of the EITI so that they can attend the workshops and meetings to coordinate the preparation of the EITI Report and assist in communication about EITI.

B. Project Cost and Financing

Project Components	Project cost (US \$)	Grant Financing (US \$)	% Financing
1. Component I: Capacity Building and Training	75,000	75,000	100
2. Component II: Preparation of Reports	200,000	200,000	100
3. Component III: Communication and Dissemination Campaign	60,000	60,000	100
4. Component IV: Operational Support for the Executive Secretariat	40,000	40,000	100
Total Baseline Costs			
Physical contingencies	375,000		
Price contingencies	0		
	0		
Total Project Costs	375,000		
Interest During Implementation			
Front-End Fees			
Total Financing Required	375,000		

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

- The project will be implemented by the National EEITI Secretariat, which is located within the Ministry of Mines, Petroleum and Natural Gas (MoMPNG). The functions of the National EEITI Secretariat are to serve as secretariat to the National EEITI Steering Committee (i.e. 'EITI Multi-

Stakeholder Group’) and to be the implementer of a range of EEITI implementation activities supported by government funds and external assistance, including that under EGPS.

B. Results Monitoring and Evaluation

32. Monitoring and evaluation will be managed by the National EEITI Secretariat. The Results Framework is included in Annex 1 of this Project Paper. The World Bank would assist the National EEITI Secretariat in tracking performance indicators during regular supervision missions. The National EEITI Secretariat will also be responsible for overall day-to-day technical supervision of the implementation of the project activities and will benefit from technical input from the ‘EEITI National Steering Committee’ to this end.

V. KEY RISKS AND MITIGATION MEASURES

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector strategies and policies	Low
4. Technical design of project or program	Low
5. Institutional capacity for implementation and Sustainability	Low
6. Fiduciary	Low
7. Environment and Social	Low
8. Stakeholders	Substantial
9. Other	Low
Overall	Substantial

33. **Political and Governance risk:** The risk has been rated as substantial. The Ethiopian political environment, which remained relatively stable until recently, has deteriorated and a state of emergency has been officially declared. Hence, this situation, if it continues further, is likely to affect the PDO. The Government has clear set of development priorities in the Growth Transformation Plan (GTP), and the GTP2, which sets the overall strategic framework for the country’s development. Adequate anti-corruption and public sector ethics regulations exist and are generally enforced. The principles of transparency, accountability and participation are generally adhered to. Levels of corruption in Ethiopia, though unclear, are believed to be low. The perception is that common forms of corruption, i.e. use of public resources for private gain, are not widespread or systemic.
34. **Macroeconomic risk:** The risk has been rated as moderate. The domestic economic risks arising from current policy include: (a) Rise in domestic debt of major state owned enterprises and public banks due to continuous public investment and financing, (b) Substantial external borrowing on non-concessional terms combined with poor export performance may result in an upgrade of

external debt risk distress, and (c) Balance of payments pressures from import needs. The government has taken measures to address these risks but additional reforms are needed. However, overall the macroeconomic policies and institutions are generally adequate and the macroeconomic effects would only moderately affect the achievement of the PDO if they materialize.

35. **Sector strategies and policies:** The risk has been rated as low. The mining sector is still developing in Ethiopia, and there is also a significant amount of Artisanal Mining taking place in the country. Mining finds a significant place in both GTP 1 and GTP2. However, conflicts attributed to mining have not yet been reported on a large scale. Recently, the World Bank had provided advise on reform for sector strategies, policies and institutional strengthening to the Ministry of Mines, Petroleum and Natural Gas. These recommendations were well received and are currently under consideration.
36. **Technical design of the project or program:** The Grant will support the EITI institutions that have previously received support from the World Bank and therefore builds on strong demand and prior experience of working with such institutions. The activities to be supported are similar in most respects to those supported in prior years. Overall project design risk is considered Low.
37. **Institutional capacity for implementation and sustainability:** The risk has been rated as low. The previous grant to support EITI was disbursed completely, and all the activities mentioned in the workplan were carried out satisfactorily. MoM is annually audited by the Office of Auditor General (OFAG). Major issues were not raised in the report and the ministry is working towards resolving these issues.
38. **Fiduciary:** The risk has been rated as Low. Major issues were not reported in the annual audit of the Office of Auditor General (OFAG).
39. **Environment and Social:** The risk has been rated as Low. The Environmental Assessment category assigned to the project is 'Category C', as this is a transparency initiative which does not involve any physical activities concerning extraction. Similarly, social risks due to the project are also very low. In fact, implementing EITI is often seen as a useful tool to stimulate public dialogue around extractives, and as a means to mitigate social risk in extractives operations.
40. **Stakeholders:** The risk has been rated as Substantial. There is a strong interest in EITI implementation from Government of Ethiopia (GoE), donors, civil society and private sector who have overall been supportive of the process. However, the laws of Ethiopia restrict free civil society involvement on 'advocacy' issues, a situation that is likely to get more restrictive after the declaration of emergency. This is likely to affect the PDO.
41. **Others:** As there is no other significant risks impacting the project, the risk has been rated as low.
42. **Overall risk:** The overall Risk is rated as Substantial. While the EITI implementation is progressing well, the project now faces substantial political and governance risks, substantial stakeholder risk, and moderate macro-economic risks.

VI. APPRAISAL SUMMARY

43. The proposed project is purely a technical assistance project to support the GoE's efforts to comply with EITI requirements and thereby establish the principles of a sustainable resource management system and enhance transparency in the extractive industries. Therefore, benefits are not easily quantifiable making it difficult to accurately carry out a traditional cost benefit analysis. Implementation of the EITI process increases economic benefits to Ethiopia as it improves transparency, accountability and governance in the extractive industries. By enhancing stakeholders' capacity to engage in resource management and the EITI, the proposed grant is also expected to help reach sustainable agreements in the extractives industries and to make these industries better contributors to shared growth and employment.
44. **Financial Management:**

- (a) A financial management (FM) assessment was conducted at Ministry of Mines, Petroleum and Natural Gas (MoM) in accordance with the Financial Management Manual issued by the Bank's Financial Management Sector Board on March 2010, revised on February 4, 2015 and in line with the Small Recipient- Executed Trust Fund Grants Guidance Note of March 2015 to determine whether the participating institutions have adequate financial management systems and related capacity in place which satisfies the Bank's Operation Policy/ Bank Procedure (OP/BP) 10.00. The assessment included the identification of key perceived financial management risks that may affect program implementation and proceeded to develop mitigation measures against such risks.
- (b) MoM will follow government procedures in regards to the project, adjusting them to meet the Bank's specific requirements. The normal government procedures for budgeting, accounting and internal controls will be used. MoM will use IBEX software and government chart of accounts for accounting for the project funds and will supplement the IBEX with excel spreadsheet to track and report expenditures for the component, subcomponent and category to the Bank. The ministry will retain the current financial management specialist (FMS) recruited for the JSDF project who is also handling other funds including the EEITI phase I project and his cost will be financed partly by the project and from counterpart funding from the government. In addition, the ministry will assign/recruit one finance expert to work with the project FMS to build internal capacity and to maintain smooth implementation of the project and to avoid any possible disruption. The ministry has an internal audit directorate which is under staffed but preforms quarterly internal audit reviews on government funds and projects submit their report to the Minister as well as to the inspection directorate within MOFEC. It is envisaged that the directorate will audits this Bank financed this project as part of its work program and report will be shared to the Bank.
- (c) The fund flow arrangement agreed with the government is to use Transaction-Based Disbursement through the use of statement of expenditures (SoE). The project may follow one or a combination Reimbursement, Advance and Direct Payment disbursement methods. The ministry will be required to open a new Designated Account (DA) at the National Bank of Ethiopia denominated in United States Dollar for the project. A local account in Birr will also be opened to receive transfers from the USD account. These accounts will finance all eligible project expenditures as per the financing agreement.
- (d) The Ministry will be required to prepare and submit quarterly Interim Financial Reports to be submitted to the Bank within 45 days of end of the quarter. The IFR will include a Statement of Sources and Uses of Fund; a statement Use of Fund comparing budgets with actual expenditures for the quarter and cumulative, a statement of Designated Account; as well as notes to the IFR and supporting schedules. The IFR formats are agreed upon.
- (e) MoM is annually audited by the Office of Auditor General (OFAG). Major issues are not raised in the report and the ministry is working towards resolving these issues. One Bank financed projects is audited annually and the reports are submitted within the due date with the clean audit opinion. Given that the grant is for a small amount, the Bank, upon approval of the Management of the FM practice, will eliminate periodic annual audits and there will be a onetime of audit conducted at the end of the project life covering the entire project life by an auditor acceptable to the Bank and it will be submitted within six months of the closing of the project. In accordance with the World Bank's Policy on Access to Information, the World Bank requires that the borrower disclose the audited financial statements in a manner acceptable to the Bank. Following the Bank's formal receipt of these statements from the borrower, the Bank makes them available to the public as per the policy.

- (f) Based on the assessment conducted, the proposed FM arrangements meet the IDA's requirements as per OP/BP 10. They are adequate to provide, with reasonable assurance, the accurate and timely information on the status of the project required by IDA. The residual FM risk is rated as low. Action plans were agreed to address some of the weaknesses observed.

	Action	Date due by	Responsible
1	Prepare/Finalize project work plan and budget that is mapped to the chart of accounts and ensure that the project budget is included as part of the Ministry's budget and proclaimed Carry out budget monitoring and control as a management tool- by maintaining excel spreadsheet for the project's components, subcomponents and categories and by reviewing budgets when approving for payments, by comparing the budgets with actual expenditures on a monthly/quarterly basis and by explaining major variances	Before Implementation starts During implementation	MoM
2	Assign/recruit additional accountant to work with the FMS to build internal capacity and to maintain smooth implementation of the project and to avoid any possible disruption	Upon grant effectiveness	MoM
3	Use IBEX software and government chart of accounts for accounting the project funds and supplement the IBEX with the excel spreadsheet to track and report expenditures for the component, sub-component and category to the Bank	During implementation	MoM
4	Internal auditor of the MoM will perform an audit of this grant on an ongoing basis and will include it in their annual plans. Reports will be shared to the Bank.	During implementation	MoM
5	IFRs will be submitted to the Bank within 45 days after the end of the quarter to which they relate	Within 45 days of the end of quarter	MoM
6	Appoint or recruit the external auditor of the project and notify the Bank	3 months after effectiveness	MoM
7	Submission of audited financial statements and audit report including the management letter;	Within 6 months of the end of the project	MoM
8	Disclosure-In accordance with Bank Policy, (a) The Bank requires that the borrower disclose the audited financial statements in a manner acceptable to the Bank; (b) Following the Bank's formal receipt of these statements from the borrower, the Bank makes them available to the public in accordance with The World Bank Policy on Access to Information.	At the end of the project	MoM

45. **Procurement.** The procurement arrangements will be carried out by the EEITI Secretariat. Procurement capacity is high for the EEITI Secretariat, which has delivered under a previous grant under the Bank's EITI-MDTF. Most of the grant funds will finance consultant services. There is substantial global experience in the Bank and other EITI Implementing countries with standard

requirements and terms of references for similar tasks and, therefore, the procurement work load will be relatively straight forward.

46. Environment and Social (including Safeguards)

- (a) The proposed Grant is a technical assistance grant of a limited scope with activities that do not have any likely adverse environmental or social impacts. Funding of the EITI Report, training and other capacity building activities are aimed at improving the transparency of payments and revenues in the extractives sector. Therefore, per OP 4.01 Environmental Assessment, the proposed project is classified as a Category C Project.
- (b) Environmental risks: Project activities including funding of the EITI Report, training and other capacity building activities are designed improve the transparency of payments and revenues in the extractives sector. The EITI process will not entail any physical activity, or produce a master plan or feasibility study of an investment project that may cause any environmental or social impact. The Bank's role through this grant is solely to facilitate the EITI process. No advice on regulatory reform or investment climate issues will be provided through this grant.
- (c) Social risks: The neutral and fact-based platform for dialogue on natural resource wealth management created by the EITI has benefitted all sides of the debate. The team will continue working closely with civil society groups to ensure that they play an active role in decision-making and voicing the concerns of indigenous peoples and mining-affected communities, where relevant. GEEDR will continue to work closely with the World Bank Ethiopia Country Office to ensure that the Bank's role in supporting – but not leading – the EITI process is clearly articulated.
- (d) Per OP 4.01 Environmental Assessment, the proposed project is classified as a Category C Project.

A. World Bank Grievance Redress

17. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Country: Project Name

Project Development Objective (PDO): The development objective of the grant is to support the effective implementation of the Extractive Industries Transparency Initiative in Ethiopia. Specifically, the grant will support the National Steering Committee ('i.e. Multi-Stakeholder Group'), and the Implementation Secretariat ('National EITI Secretariat) in Ethiopia in implementing the activities and processes required for Ethiopia to successfully undergo Validation in accordance with the EITI Standard, 2016.

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2	YR3	YR 4	YR5				
Indicator One: Publication of EITI Reports on time and in compliance with the EITI Standard	<input type="checkbox"/>	Yes/No	Yes	Yes					Annual	Annual Activity Reports, EITI Report	EEITI Secretariat	-
Intermediate Indicator: EITI Report recommendations addressed by the NSC	<input type="checkbox"/>	Yes/No	No	Yes					Annual	Annual Activity Reports, EITI Report	EEITI Secretariat	-

*Please indicate whether the indicator is a Core Sector Indicator (see further <http://coreindicators>)

**Target values should be entered for the years data will be available, not necessarily annually

