EITI REQUIREMENT 2.6

State participation and state-owned enterprises

Guidance Note

October 2020

This note has been issued by the EITI International Secretariat to provide guidance to implementing countries on meeting the requirements in the EITI Standard. Readers are advised to refer to the EITI Standard directly, and to contact the International Secretariat to seek further clarification.

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Contents

Executive summary

State-owned enterprises (SOEs) play important roles in exploiting natural resources and managing the extractive sector.[1] While some are commercial or operational companies —selling crude oil or raw minerals, managing state equity or participating directly in extractive operations — others are regulatory or administrative entities or instruments of economic or state development.

Many SOEs perform a mix of commercial and non-commercial duties. SOEs can generate significant revenue for the state, enable a government to exercise greater control over the sector, help improve local technologies and skills, manage exposure to energy transition risks, or address market failures by providing services that would not otherwise be provided by the private sector. State equity is also used by many countries to secure additional government take (beyond tax revenue) from extractive projects.

Governance of state participation and SOEs have considerable implications for public finances and the economy in general. Although some SOEs have made significant contributions to development and revenue generation, others have struggled with poor governance and corruption. Early results from EITI reporting and Validation have shown that although financial transactions related to state-owned companies have become more transparent, there is still a demand for improvement of transparency standards around SOE governance.

Requirement 2.6 of the EITI Standard requires that, where state participation in the extractive industries gives rise to material revenues for the state, the following information should be reported (1) an explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), and (2) the level of ownership by the government and SOE(s) in mining, oil and gas companies operating in the country, including those held by SOE subsidiaries and joint ventures.

This note provides guidance to multi-stakeholder groups (MSGs) on how to report on state participation as part of EITI implementation, offers a set of examples from implementing countries and outlines opportunities to strengthen the dissemination and use of data.

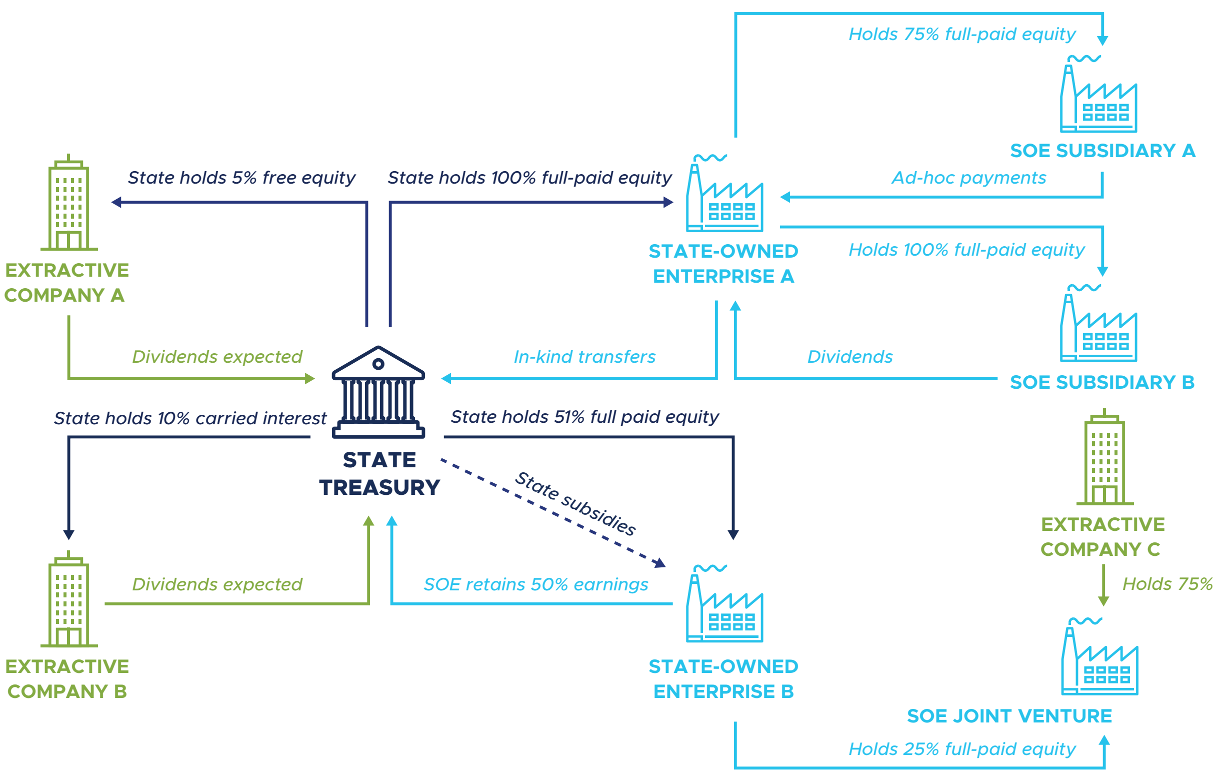
1. A state-owned enterprise (SOE) refers to a company that is owned in whole or in part by the government. The roles of SOEs vary from country to country, and in the natural resource sector SOEs are often responsible for both commercial and non-commercial activities. They can be described as business-oriented majority government owned institutions that sell goods or services or manage state equity and keep their own balance sheets. See: IMF (2007) Manual of Fiscal Transparency. Section 1.1.4 "Relationships between the government and public corporations". Pages 24- 29. Available online at http://www.imf.org/external/np/pp/2007/eng/051507m.pdf.

What can the data help answer?

1) What revenues can the state expect to collect from its direct and indirect participation in the extractive sector?
2) How much is the state or SOE spending to meet the terms of its participation in the industry, what are they entitled to receive and how much is it actually receiving in revenues?
3) What are SOE auditing rules and how are they complied with?
4) Does the state or SOEs manage revenues collected from its participation in the industry in a transparent and sound way?
5) Is the SOE a credible partner for a foreign company to enter in a business partnership with?

State participation in the extractive industries

Mapping the fiscal relation between the state and extractives communities



Overview of steps

Steps	Key considerations	Examples
Step 1: Agree a definition of SOEs (p.10)	• What is the adequate definition of SOEs in the national context, taking into consideration the minimum definition in the EITI Standard and domestic legislation? • Which companies are majority-owned by the government (50%+1 share)? In which companies does the state exercise an equivalent degree of control without holding majority equity ownership? • Are these companies primarily engaged in the extractive industries on behalf of government (i.e. holding extractives licenses, holding equity in extractives companies)? Consideration could also be paid to companies' non-commercial roles, such as acting as concessionaire on behalf of government.	• **PNG** • **Nigeria**
Step 2: Comprehensively list all state participations in extractives companies and projects (p.11)	• What are the government's direct equity interests in extractives companies, including minority interests and in SOEs? • What are SOEs' equity interests in subsidiaries, joint-ventures and other extractives companies? • What are SOEs' participating interests in PSCs and other extractives projects? • What are the terms associated with each of the equity interests held by the state or SOE?	• **Kazakhstan** • **Indonesia** • **Ghana** • **Philippines**
Step 3: Describe any changes in state participation in the year under review (p.16)	• What have been the changes in state or SOE ownership in extractives companies during the year under review? • What were the terms of the transaction for each change in state or SOE ownership in the year under review? (I.e. What was the valuation of the equity interest? What consideration was paid?)	• **Indonesia** • **Ghana**

Steps	Key considerations	Examples
Step 4: Assess the materiality of SOEs' revenues and payments to government (p.17)	• Do SOEs collect any revenues (in cash or in-kind) from private companies or extractives subsidiaries/ joint-ventures? What is the value of these revenues? • Do SOEs make payments or transfers to the government? What is the value of these payments/transfers? • What is the adequate reporting threshold for selecting SOEs to be required to disclose information given the national context?	• **Cameroon** • **Democratic Republic of Congo**
Step 5: Review and describe the statutory financial relations between SOEs and government (p.20)	• What are the existing legislative and regulatory arrangements that govern state participation in the extractive industries? • Is the SOE entitled to receive budget transfers or subsidies? • Can the SOE's Board of Directors decide on its own dividends? • Can the SOE retain earnings? • Can the SOE reinvest in its operations? • Can the SOE seek third-party financing (either debt or equity)?	• **Nigeria** • **Colombia** • **Iraq**
Step 6: Describe the financial relations between SOEs and government in practice (p.23)	• Overall, were the SOE's financial relations with government in line with the rules in the year under review (as described under Step 4)? • Did the SOE receive any budget transfers, subsidies or other capitalisations from the state in the year under review? If yes, what was the corresponding value? • Did the SOE declare and/or pay any dividends in the year under review? If yes, what was the corresponding value? • Did the SOE retain earnings in the year under review? If yes, what was the corresponding value? • Did the SOE reinvest in its operations in the year under review? If yes, what was the corresponding value? • Did the SOE have any outstanding or new third-party financing (either debt or equity) in the year under review? If yes, what was the corresponding value?	• **Republic of Congo** • **Albania** • **Kazakhstan**

Steps	Key considerations	Examples
Step 7: Describe any state or SOE loans or loan guarantees to extractives companies (p.27)	• Did the state have any outstanding loans or loan guarantees to any extractives companies (including SOEs) or projects in the year under review? • Did the SOE have any outstanding loans or loan guarantees to any extractives companies or projects in the year under review? • What are the terms of each loan and guarantee identified? E.g. Tenor, repayment terms, interest rate.	• **Mongolia** • **Afghanistan**
Step 8: Liaise with each material SOEs on the publication of their financial statements (p.29)	• Does the SOE have financial statements? Are they audited? Are they prepared based on international accounting standards, such as International Financial Reporting Standards? Were they audited in line with international standard? • Are the SOE's financial statements published? If not, is there a reason? • If the publication of full financial statements by the SOE is not possible, is the SOE willing to publish a summary of its balance sheet, profit & loss and cash flow statements? What other intermediary steps can be taken?	• **Guinea** • **Indonesia**
Step 9: Explore opportunities for improving SOEs' procurement, subcontracting and corporate governance (p.32)	• What are the rules and practices related to the SOE's expenditures management (operating and capital expenditures)? • What are the rules and practices related to the SOE's procurement? • What are the rules and practices related to the SOE's subcontracting? • What are the rules and practices related to the SOE's corporate governance? E.g.: Composition, appointment, mandate and Code of conduct of the Board of Directors and management.	• **Mongolia** • **Cameroon**

Requirement 2.6

a) Where state participation in the extractive industries gives rise to material revenue payments, implementing countries **must** disclose:

i) An explanation of the role of state-owned enterprises (SOEs) in the sector and prevailing rules and practices regarding the financial relationship between the government and SOEs, i.e. the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and third-party financing. This **should** include disclosures of transfers, retained earnings, reinvestment and third-party financing related to SOE joint ventures and subsidiaries.

For the purpose of EITI implementation, a state-owned enterprise (SOE) is a wholly or majority government-owned company that is engaged in extractive activities on behalf of the government. Based on this, the multi-stakeholder group **is encouraged** to discuss and document its definition of SOEs, taking into account national laws and government structures.

ii) Disclosures from the government and SOE(s) of their level of ownership 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 during the reporting period.

This information **should** include details regarding the terms attached to their equity stake, including their level of responsibility for covering expenses at various phases of the project cycle, e.g. full-paid equity, free equity or carried interest. Where there have been changes in the level of government and SOE(s) ownership during the EITI reporting period, the government and SOE(s) **are expected** to disclose the terms of the transaction, including details regarding valuation and revenues. Where the government and SOE(s) have provided loans or loan guarantees to mining, oil and gas companies operating within the country, details on these transactions **should** be disclosed, including loan tenor and terms (i.e. repayment schedule and interest rate). Multi-stakeholder groups **may wish** to consider comparing loans terms with commercial lending terms.

b) SOEs **are expected** to publicly disclose their audited financial statements, or the main financial items (i.e. balance sheet, profit/loss statement, cash flows) where financial statements are not available.

c) Implementing countries **are encouraged** to describe the rules and practices related to SOEs' operating and capital expenditures, procurement, subcontracting and corporate governance, e.g. composition and appointment of the Board of Directors, Board's mandate and code of conduct.

How to implement Requirement 2.6

The EITI International Secretariat recommends the following step-by-step approach to MSGs for reporting on state participation in the extractive industries. It is recommended that the findings from each step are documented by the MSG (e.g. in meeting minutes, scoping studies, EITI reporting or other disclosures).

In line with the default expectation that EITI implementing countries systematically disclose data required by the EITI Standard,[2] the MSG should work with SOEs and government entities to ensure publication of information listed under Requirement 2.6 by the custodian entities. The EITI reporting process should review publicly available information, address any gaps in the existing data and analyse the data to contribute to improving the transparency and management of the sector around state participation.

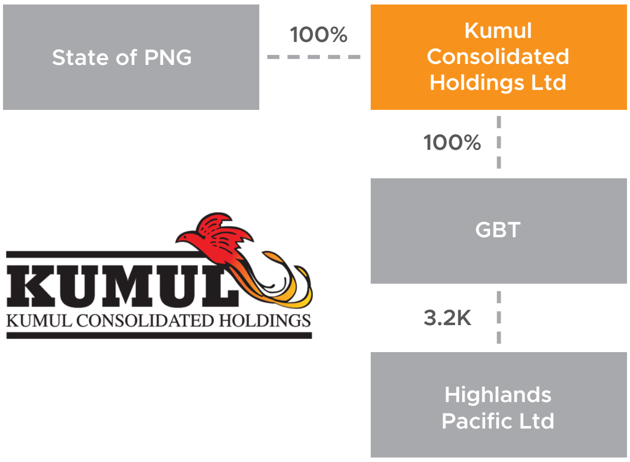
Step 1
Agree a definition of state-owned enterprises (SOEs)

The MSG should first agree a definition of SOEs that is in line with the minimum required by the EITI Standard, taking into consideration the local context, including national legislation and relevant government structures. Requirement 2.6.a.i. states that "For the purpose of EITI implementation, a state-owned enterprise (SOE) is a wholly or majority government-owned company that is engaged in extractive activities on behalf of the government."

The MSG's definition should consider cases of companies holding extractives licenses, companies holding equity interests in other extractives companies (holding or asset-management company structure) and sovereign wealth funds.

The MSG may wish to consider the OECD's definition of enterprises that are under the control of the state, either by the state being the ultimate beneficiary owner of the majority of voting shares or otherwise exercising an equivalent degree of control in agreeing its definition of SOEs.[3]

2. EITI Board Decision 2018-08/BM-39, February 2018, https://eiti.org/board-decision/2018-08.
3. See pp.14-15 of OECD (2015), 'OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015 Edition, https://www.oecd-ilibrary.org/governance/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-2015_9789264244160-en;jsessionid=P7eX_At6FIQuFqCeh4YISila.ip-10-240-5-138



In PNG, Kumul Consolidated Holdings is the government's asset management company. It was considered an SOE by the MSG but could have been excluded.

In Nigeria, the sole oil and gas SOE is NNPC.

Step 2
Comprehensively list all state participations in extractives companies and projects and describe the associated term

The MSG should draft a comprehensive list of mining, oil and gas companies in which the government holds interests, either directly or indirectly through SOEs, including minority participations, SOEs and other forms of state equity, and companies incorporated in the country's jurisdiction and abroad. The comprehensiveness of the assessment is important to ensure that state participations in extractives projects are not hidden through layers of corporate ownership.

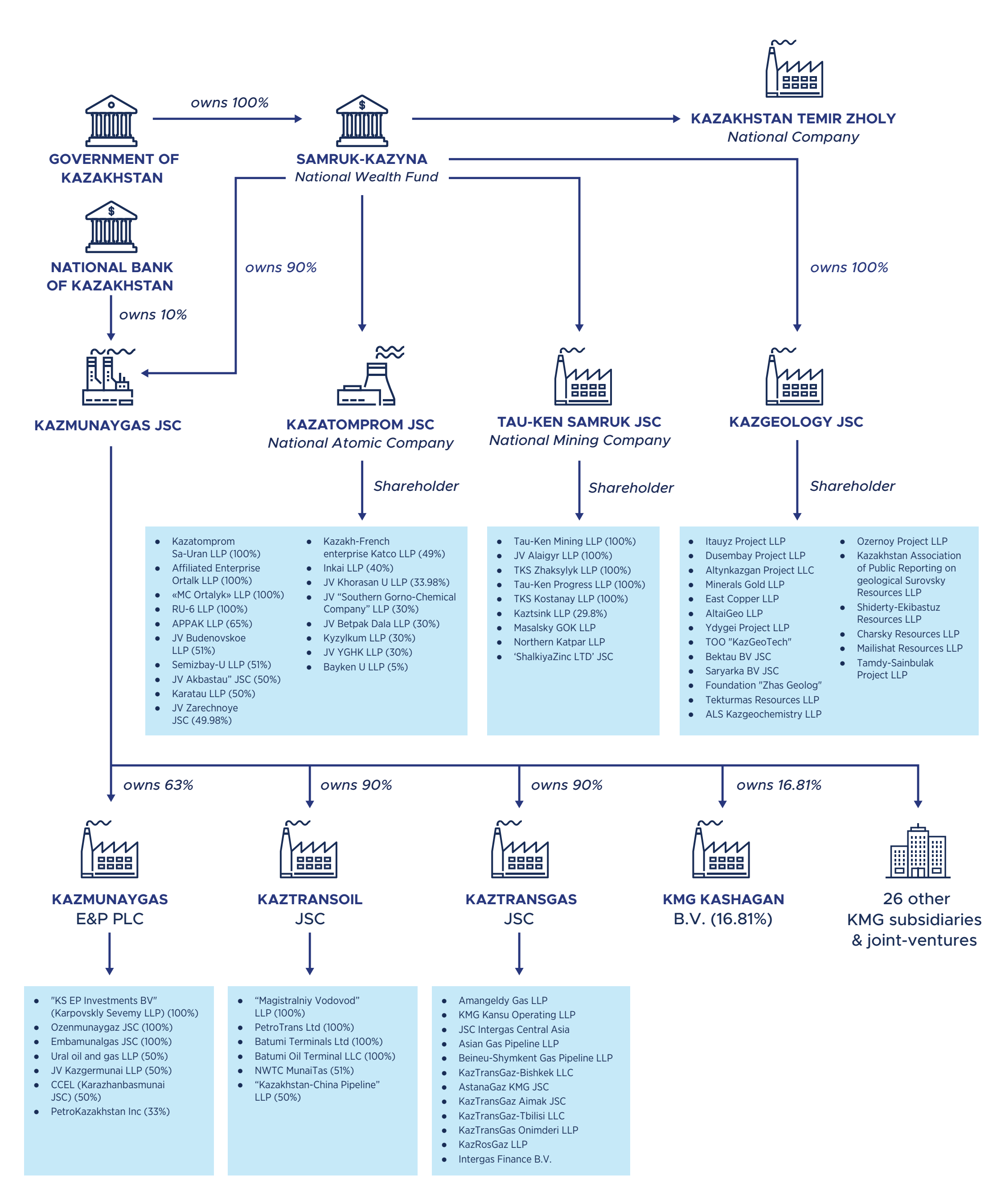
This overview should be disclosed through relevant government systems, e.g. on the website of the ministry that manages state participation and/or SOEs. Information about shares held by SOEs themselves in extractive companies and joint-ventures should be disclosed directly through the SOEs' publication platforms, where they exist. Where gaps in such disclosures exist, MSGs should ensure the information is disclosed through EITI reporting.

The MSG should ensure that the terms associated with state or SOE equity in companies are clearly described, to help understand whether the state is responsible for future investment due to its ownership of equity in extractives companies, or whether its equity

CASE STUDY

Kazakhstan
State ownership in the mining, oil and gas industry

The complexity of the structure of SOEs and subsidiaries calls for a comprehensive picture of all SOEs and their subsidiaries. Using existing disclosures to visualise such structures can help stakeholders get a better picture of state participation in the industry.



Source: EITI International Secretariat, based on SOEs' public disclosures.

Step 2
Continued

interest comes "free" (i.e. only with dividends but not requirement to fund that share of the company's investments).

This information should be provided for all state equity ownership in the extractives, including those held by SOE subsidiaries, not only those considered material for EITI reporting. This should include details regarding the terms attached to the government's or SOE's 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 information on state and SOE participating interests in oil and gas projects should include information on the entitlements to production shares in line with the fiscal terms of the project. This information should be disclosed through government or company systems, where possible, with EITI reporting addressing disclosure gaps.

CASE STUDY

Indonesia
SOE subsidiaries

Below, SOE PT Aneka Tambang's subsidiaries in 2016. The term "indirect ownership" should be better defined, with the structure of SOE subsidiaries, and subsidiaries of SOE subsidiaries, clearly listed.

Table 34 The list of subsidiaries of PT Aneka Tambang Tbk engaged in the extractive sector

No	Type of Ownership	Company	Percentage of Shares (2016)	Business Field
1	Direct ownership	Indonesia Coal Resources	100%	Coal exploration and mining operator
2	Direct ownership	PT Antam Resourcindo	99.98%	Exploration and mining operator
3	Direct ownership	PT Dwimitra Enggang Khatulistiwa (not yet operating commercially)	99.5%	Exploration and mining operator
4	Direct ownership	PT Cibaliung Sumberdaya	99.15%	Exploration, mining construction and development, mining, production, processing and refining, transportation and sales in the gold industry
5	Indirect ownership	PT GAG Nikel Indonesia (not yet operating commercially)	100%	Exploration and mining operator
6	Indirect ownership	PT Citra Tobindo Sukses Perkasa	100%	Coal exploration and mining operator
7	Indirect ownership	PT Jatim Arindo Persada (not yet operating commercially)	100%	Coal exploration and mining operator

Source: Indonesia's 2016 EITI Report, vol.2, p.75.

Step 2
Continued

The terms associated with equity determine the duties and responsibilities of the shareholder. For instance, they define the shareholder's (state's or SOE's) level of responsibility for covering expenses at various phases of the project cycle. They can consist of:

- **Full equity:** Equity on commercial terms. The shareholder is responsible for cover its share of expenditures (opex and capex) in line with its equity interest.
- **Free equity:** The state's or SOE's responsibility for covering its share of expenditures (opex and capex) in line with its equity interest is covered by the operator. The state's or SOE's equity is in effect 'free', since the state or SOE does not pay for its equity interest.

CASE STUDY

The Philippines
Term attached to SOE equity

Below, an example of disclosure of free equity, where the partner firms cover all project expenses on behalf of government. There is no requirement for SOE Philippines Mining Development Corporation (PMDC) to fund its equity interest.

Table 18. **Contractual and Fiscal Information of GOCCs in the Extractive Industries, 2013**

	PNOC EC	PMDC
Payments made to the government	PH₱1,013,490,414	PH₱22,287,405
Contract or arrangement involving exchange of goods or services	None	None
Transfer of funds, earnings, re-investment, and third party financing	Other than the transfer of funds through dividend payment and loans, there are no other fund arrangements with the government or third party.	
Terms attached to equity stake, including level of responsibility to cover expenses at various phases of the project cycle	PNOC EC covers expenses up to the extent of its equity share/interest in the service contracts or depending on the agreement with partners where the latter may cover all expenses up to a certain phase of operations. Refer to Table 21 for the details of equity share of PNOC in petroleum service contracts.	All expenses for the projects are covered by the partner firms (i.e., mining companies) of PMDC.
Source of revenue	Malampaya project and other operating service contracts	Commitment fees and royalty fees
Required dividends to be remitted to the government	• At least 50% of its annual net earnings • Other earnings are utilized for the day-to-day operations	
Actual dividend declaration in 2013	None	None
Payments made to finance/fund social services, public infrastructure, fuel subsidies and national debt	Social performance programs provided to host communities. No public infrastructure or fuel subsidies.	
Change in ownership	None	None
Loans/borrowings extended from the national government or department agencies	None	Loans from National Development Corporation (NDC) and Development Bank of the Philippines (DBP).
Quasi-fiscal expenditures	There are no quasi-fiscal expenditures or activities during 2013.	

Source: The Philippines' 2013 EITI Report, p.41.

Step 2
Continued

- **Carried interest:** The state's or SOE's responsibility for covering its share of expenditures (opex and capex) in line with its equity interest is covered by the operator during the development phase. The operator is then reimbursed once the project is operational/profitable. The state's or SOE's equity interest is in effect 'carried' by the operator.

CASE STUDY

Ghana
Carried interest

Below, an example of disclosure of carried interest, where investment is covered by operator and subsequently reimbursed. This shows the terms associated with SOE Ghana National Petroleum Corporation (GNPC) equity. The terms of the state's participation in each PSC are described on the Petroleum Register.

Table 2 Ghana Group Oil Entitlement

Revenue Type	Entitlement		Total Entitlement
Royalty	5% of gross production		5 %
Carried and Participating Interest	Carried Interest	10% of net production	
	Participating Interest	3.64084% of net production	
	Total:	13.64084% of net production (13.64084 * .95)	12.9588%
Ghana Group entitlement (%)			17.9588%

Finding
Ghana's total share in 2012 is now 17.9588% inclusive of Royalties as compared to 18.0625% in 2011.

2.1.12 Carried Interest

GNPC, on behalf of the State has a 15 percent participating carried interest in each contract area. GNPC is "carried" during the exploration and development phases. All the risks of exploration and development is borne by the oil Companies.

2.1.13 Additional Participating Interest

The State is entitled to acquire additional interest in each contract area, for which it is responsible for full costs during development and production phases. The allowable percentage of this interest varies for each contract. Furthermore, section 18 of Act 919 grants Ghana preemptive rights (right of first refusal) in case a contractor decides to dispose all or part of its interest in a PA.

Source: EITI International Secretariat, based on SOEs' public disclosures.

Step 3
Describe any changes in state participation in the year under review

The MSG should identify any changes in state ownership of interests in extractives companies and projects in the year under review. Transparency in changes in state participation is key to understanding acquisitions and sales by the state and SOEs in the extractive industries, the valuation of state assets, whether transactions were undertaken on a commercial basis, and whether transfers of state assets to extractive companies were done with or without compensation. For each change in state ownership in the year under review, EITI reporting should indicate the corresponding terms of the transaction, including valuation and revenues.

CASE STUDY

Indonesia
Changes in SOE ownership

Below, the disclosure of 2016 ownership changes in national oil company PT Pertamina's working areas.

Table 30 Changes in ownership of working areas of PT Pertamina (Persero)

No	Nama of Block/Company	Transaction	Share Ownership / Participating Interest	Price	Remark
1	Etablissements Maurel et Prom SA (M&P)	Acquisition of Participating Interest (PI)	24.53%of shares	US$227 million	Effective from August 25, 2016
2	East Ambalat	Acquisition of Participating Interest (PI)	100%	No information	Effective from May 25, 2016 with a term of 30 years
3	WKP Gunung Lawu	Acquisition of Participating Interest (PI)	100%	No information	Effective from January 11, 2016

Source: Annual Report of PT Pertamina (Persero) in 2016

Source: Indonesia's 2016 EITI Report, vol.2, p.74.

CASE STUDY

Ghana
Changes in state participation

The PIAC (Public Interest and Accountability Committee) reports in detail any change in state participation with implications for GNPC's oil revenues.

Table 1. Share of Petroleum by Jubilee Partners

Company	Share before Redetermination	Company	Share af ter Redetermination
GNPC	13.7500%	GNPC	13.64084%
Tullow	36.45 47%	Tullow	35.47954%
Kosmos	23.4913%	Kosmos	24.07710%
Anadarko	23.4913%	Anadarko	24.07710%
Sabre	2.8127%	PetroSA[3]	2.72544%
Total	100%		100%

Source: PIAC, 2012 Annual Report, p.9

Step 4
Assess the materiality of SOEs' revenues and payments to government

The MSG should define the material SOEs for the purpose of EITI reporting. This means that the MSG has the flexibility to agreeing what constitutes a material SOE and which SOEs should be required to disclose information, by agreeing a materiality threshold. MSGs are encouraged to consider the non-commercial functions of the SOE in determining the materiality threshold.

Drawing on the comprehensive list of state participations in the mining, oil and gas sectors (Step 2), the MSG should refine a list of companies meeting the MSG's definition of SOEs (Step 1). For each of the SOEs, the MSG should source from relevant government ministries or the SOEs themselves the value of:

- revenues collected from extractives companies,
- transfers in cash or in-kind to government entities.

By ranking all of the SOEs by value of their transfers to government, the MSG could consider setting a materiality threshold for selecting material SOEs that strikes a balance between comprehensiveness of disclosures and relevance of the information.

Non-financial factors can also help MSGs determine which SOEs are required to disclose information.

Step 4
Continued

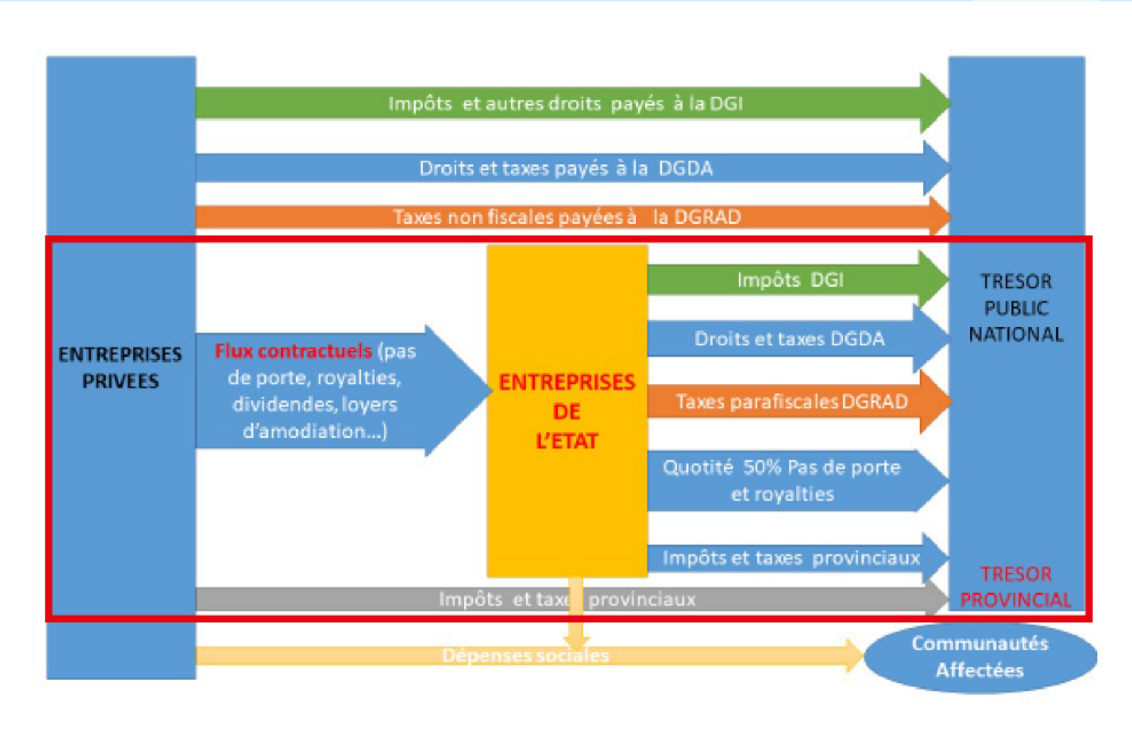
In Iraq for instance, upstream oil and gas SOEs do not make financial payments to government, but are material given that they are involved in in-kind transfers and receive material transfers from government. MSGs could also take a risk-based approach to selecting SOEs to be included in the scope of disclosures in addition to those making material payments, considering which sub-sectors or commodities may be prone to governance risks or be of particular public interest.

The MSG should conclude on a list of SOEs considered material for EITI reporting in the year under review. On this basis, the MSG will need to describe the financial relations between SOEs and the government for those SOEs deemed material (Step 4).

CASE STUDY

Democratic Republic of Congo
Assessing SOE materiality

A review of the regulatory framework (laws, regulations and company statutes), as well as revenues and payments in the year under review, should be the basis for an assessment of SOE materiality. SOEs collect a range of non-tax revenues and make several tax and non-tax payments to government.

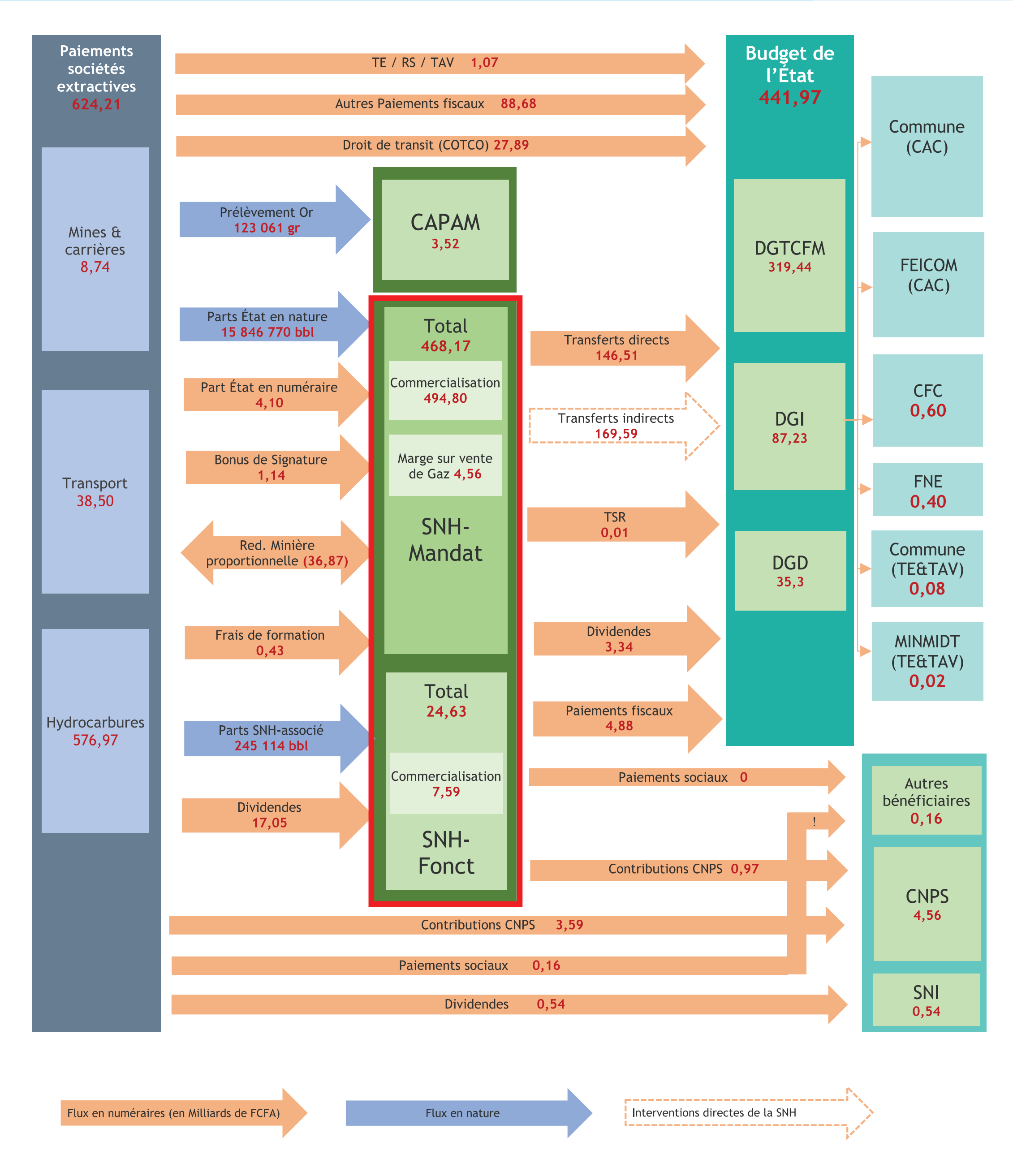


Source: *Democratic Republic of Congo's* 2016 supp. contextual EITI Report*, p.9.*

CASE STUDY

Cameroon
Distinguishing the SOE's two roles on behalf of the state

The state-owned oil company Société Nationale des Hydrocarbures (SNH) reports figures clearly distinguishing between its role on behalf of the state (SNH Mandat) and its own account (SNH Fonctionnement). The materiality of revenues collected by SNH Mandat and SNH Fonctionnement are highlighted in the red box below.



Source: Cameroon's [*2017 EITI Report*](), *p.13.*

Step 5
Describe the statutory financial relations between SOEs and government

Relevant government entities and SOEs should disclose information on the prevailing rules and practices regarding the financial relationship between the government and SOEs, as well as between SOEs and SOE joint-ventures and subsidiaries.

Such information can be summarised through EITI reporting and form the basis for recommendations that feed into reforms where necessary and inform decisions around the sector. For example, in Myanmar, the government has focused on reforming the SOEs' statutory rights to retain a significant share of earnings (up to 50% of oil and gas revenues) while receiving government subsidies. Similarly, in Senegal, the question of PETROSEN's statutory rights to secure third-party financing will be key to developing the country's large gas reserves.

The MSG should review the legislative and regulatory arrangements for state participation in the extractive industries. Based on an overview of the relevant laws, regulations, company statutes and other relevant documents, the MSG should describe the statutory rules related to:

- the transfer of funds between each SOE and the state, e.g. is the SOE expected to transfer dividends to the State, or does the SOE benefit from state subsidies? What are the rules governing the taxes, royalties, customs duties and other fiscal transfers to the government and the timetable for their settlement? Is there a clear dividend policy?
- the SOE's retained earnings, i.e. the SOE's right to retain revenues, both from its own operations and from operations conducted on behalf of government (e.g. commodity sales); What are the rules governing how the SOE can spend revenues collected from its operations?
- the SOE's reinvestment, i.e. whether the SOE's Board of Directors can decide on the SOE's dividends; What are the rules governing what the SOE can spend its retained earnings on, whether operational, capital expenditures or retention in the company's accounts?
- third-party financing for the SOE, possibilities to raise funding from a third source either through debt or equity; What if any rules govern the process by which SOEs may seek third-party financing?
- any other statutory transfer between government and the SOE.

Step 5
Continued

The MSG could synthesise this analysis into more accessible language for a broader audience. This would create a strong basis for understanding the expectations for financial flows between SOEs and government, contextualizing the rules and systems that determine transfers.

The MSG should consult and work with each SOE to ensure that the relevant regulatory texts are published (and, if possible, analysed) on their respective websites.

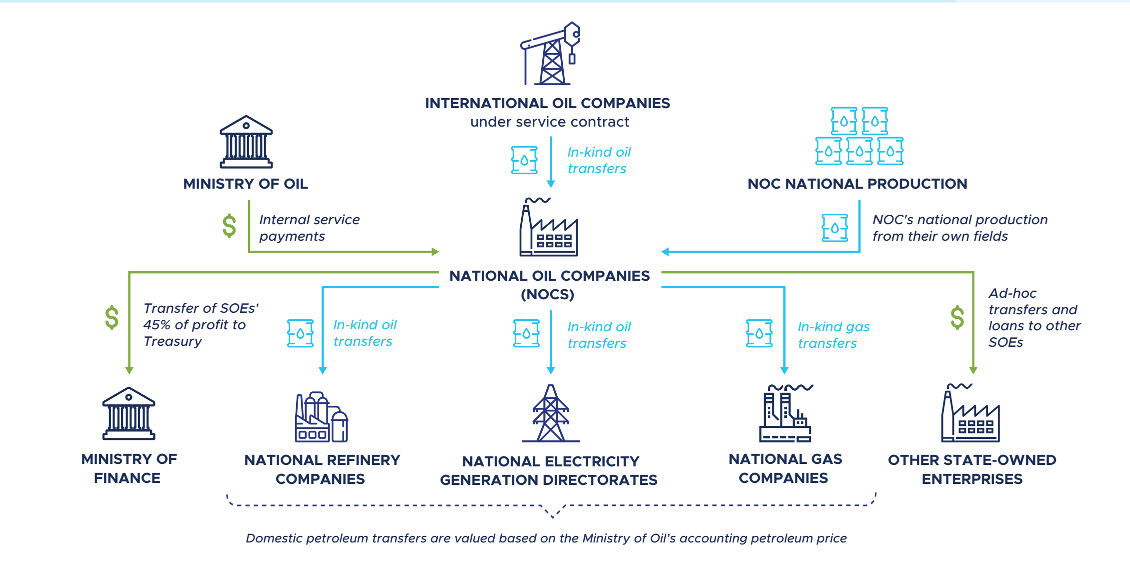
Third-party financing is funding for the SOE that does not come from its own resources (e.g. retained earnings) or from its shareholders (e.g. the government). It is financing from a third source (e.g. a private company, or bank), either through debt or equity.

- **Debt:** Debt is an amount of money borrowed by the SOE from another entity. It can be through bank loans, lines of credit, the issuance of bonds or Eurobonds. Debt has a maturity (length of time) and an interest rate (or coupon in the case of bonds). The question is whether the SOE has the statutory right to raise debt (e.g. bank loans or bonds).

CASE STUDY

Iraq
National oil companies

While national oil companies in Iraq make only one type of payment to government (45% of NOCs' net profits are usually not significant), the SOEs are considered material in terms of exploration, production and receiving material transfers (Internal Service Payments).



Source: EITI International Secretariat, based on SOEs' public disclosures.

Step 5
Continued

- **Equity:** Equity is the SOE's assets after liabilities have been deducted. It represents a share of ownership in the SOE, rather than a debt that is due to be repaid. Equity is typically issued to investors through shares. The question is whether the SOE has the statutory right to raise funding through equity (e.g. by issuing shares to outside investors).

CASE STUDY

Colombia
Regulatory framework for SOEs

The 2017 EITI Report describes the regulatory framework for national oil company Ecopetrol's financial relations with government.

Marco normativo

En el último año Ecopetrol reporta que la normatividad de mayor relevancia es la que tiene que ver con el manejo de ganancias, reinversión y financiación, así:

SOPORTE LEGAL	RELEVANCIA
LEY 1118 DE 2006	Modifica la naturaleza jurídica de Ecopetrol S. A.
Decreto número 1800 de 2015	*Se aprueba el Programa de Enajenación de las acciones que Ecopetrol S. A. posee en la empresaInterconexión Eléctrica S.A. E.S.P*
El Consejo de Ministros, emite concepto favorable sobre el Programa de Enajenación, el mencionado programa aprobó la enajenación del 5.32% (58.925.480) de las acciones ordinarias que Ecopetrol S.A posee de la empresa Interconexión Eléctrica S.A E.S.P (I.S.A)	
Resolución 3170 de 2014	*Se autoriza a Ecopetrol S. A., para suscribir, emitir y colocar bonos de deuda pública externa en los mercados internacionales de capitales.*
La norma expedida por el Ministerio de Hacienda de acuerdo al Decreto 2681 de 1993, autoriza a Ecopetrol S.A., hasta el 31 de diciembre de 2016 para suscribir, emitir y colocar Bonos de Deuda Pública Externa en los mercados internacionales de capitales, hasta la suma de USD 1.500.000.000 de los Estados Unidos de América.	
Resolución 3026 de 2014	*Se autoriza a Ecopetrol S. A., para gestionar la emisión y colocación de bonos en el mercado internacional de capitales.*
La norma expedida por el Ministerio de Hacienda de acuerdo al Decreto 2681 de 1993, autoriza a Ecopetrol S.A., hasta el 31 de diciembre de 2016 para gestionar la emisión y colocación de Bonos en el mercado internacional de capitales, hasta la suma de USD 2.150.000.000 de los Estados Unidos de América.	
Resolución 2827 de 2014	*Para emitir, suscribir y colocar a través de un Programa de Emisión y Colocación, Bonos de Deuda Pública Interna no convertibles en Acciones y Papeles Comerciales.*
La norma expedida por el Ministerio de Hacienda de acuerdo al Decreto 2681 de 1993, autoriza a Ecopetrol S.A., durante los periodos 2014 – 2015, para gestionar la emisión y colocación de Bonos de deuda pública interna, hasta la suma de $2.100.000.000.000 millones de pesos.	

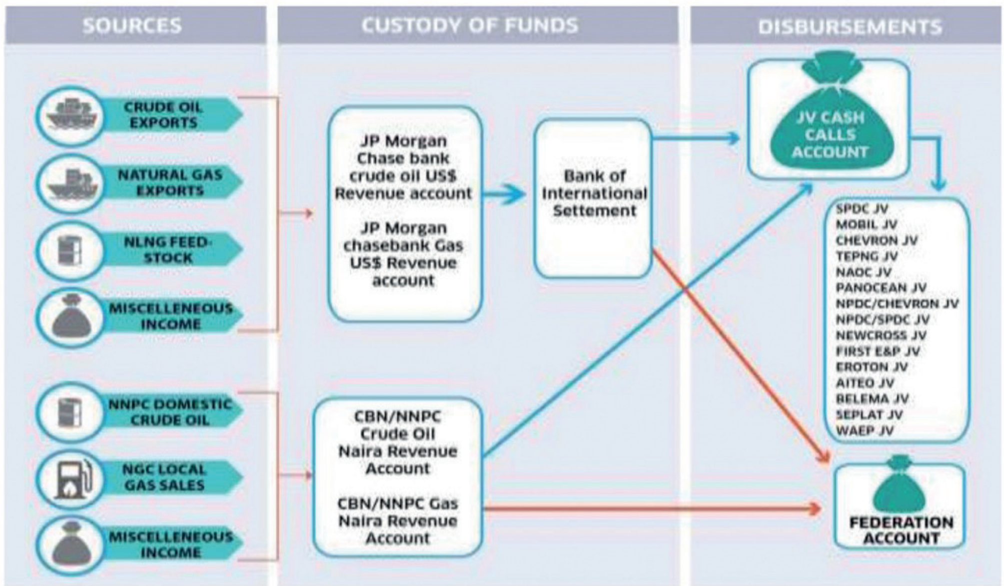
Source: Colombia's [2017 EITI Report, SOE Section](#).

CASE STUDY

Nigeria
The management of state oil and gas revenues

Below, a diagram showing the flow of oil and gas revenues (including the proceeds from the state's in-kind revenue) by NNPC (Nigerian National Petroleum Corporation).

Figure 3.1: Crude oil and gas lifting revenues to destination accounts



Source: NNPC Records

Source: Nigeria's Oil & Gas 2016 EITI Report, p.48. See also section 2.13 of Nigeria's Oil & Gas 2014 EITI Report

Step 6
Describe the financial relations between SOEs and government in practice

Relevant government entities and SOEs should disclose information on the prevailing practices regarding the financial relationship between the government and SOEs, and between SOEs and SOE joint-ventures or subsidiaries. EITI reporting should provide an annual diagnostic of adherence to the statutory rules governing SOEs' financial relations with the state (as described under Step 4) in practice. References to all publically available information should be provided and address information gaps be addressed where necessary.

Step 6
Continued

As a starting point, the MSG should review the monitoring and oversight arrangements of each SOE, including their annual reports, financial statements, sustainability (ESG) reports, stock exchange filings (if applicable), etc. The following rough equivalents can be helpful when reviewing SOEs' financial statements:

- dividends: *distribution of profits*, statement of cash flows as a use of cash under the heading *financing activities*', statement of stockholders' equity as a subtraction from *retained earnings*;
- budget transfers/subsidies: *government grant*, *government assistance*, *other income – state*;
- retained earnings: *net earnings after dividends, surplus*;
- reinvestment: *investment on own account/self-financed*;
- third-party financing including debt or equity: *short-term loan, long-term loan, line of credi', bond, Eurobond, and equity, shareholding, share issue*, etc.

CASE STUDY

Albania
Audited financial statements

Below, excerpts from national oil company Albpetrol's 2011-2016 audited financial statements. These show the use of Albpetrol's retained earnings.

Table 6 – Albpetrol's key financial data[52]

	2011	2012	2013	2014	2015	2016
Key performance indicators						
Net operating revenue in ALL million	9,385	8,035	10,405	8,371	3,101	3,995
Profit before tax (PBT) in ALL million	3,906	1,430	1,457	1,423	1	1,532
PBT margin	41.6%	17.8%	14.0%	17.0%	0.03%	38.4%
Return on Equity (PBT/Equity)	6.3%	2.4%	2.5%	2.4%	0.00%	2.60%
Return on Assets (PBT/Total assets)	5.4%	2.0%	2.0%	2.0%	0.00%	2.13%
Available oil in '000 ton	**176.6**	**156.9**	**144.0**	**149.6**	**98.1**	**79.4**
Own production	34%	29%	26%	30%	48%	64%
PEP and ASP collected in kind	66%	71%	74%	70%	52%	36%
Cash payments to the State Budget in ALL million	**809**	**1,892**	**1,562**	**2,074**	**548**	**935**
Royalty paid	415	978	621	829	187	139
Profit tax & related penalties paid	231	561	850	445	312	796
Dividend paid (including taxes)	163	353	91	799	49	-
Cash payments in % to net revenue	**9%**	**24%**	**15%**	**25%**	**9%**	**41%**
Employee data						
Personnel costs in ALL million	2,558	2,232	2,197	2,064	1,568	1,486
Employee number	4,010	3,072	2,936	2,062	2,032	1,867

Source: Albpetrol' Financial statements

Source: Albania's 2016 EITI Report*, p.38.*

Step 6
Continued

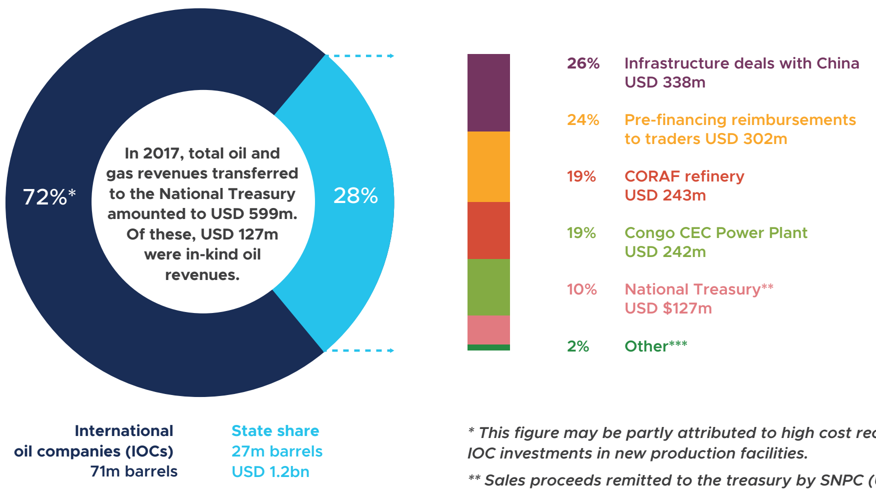
For each SOE, the MSG could consider using a standard table to guide its data collection, drawing from the example of Kazakhstan below. A template is available from https://eiti.org/guide/SOE.

CASE STUDY

Republic of Congo
Transactions involving an SOE

Below, transactions involving the national oil company SNPC (Société nationale des pétroles du Congo). In recent years, SNPC has withheld a large share of the proceeds from the sale of the state's in-kind revenues, to pay off infrastructure loans and crude barrels for the national refinery off-budget.

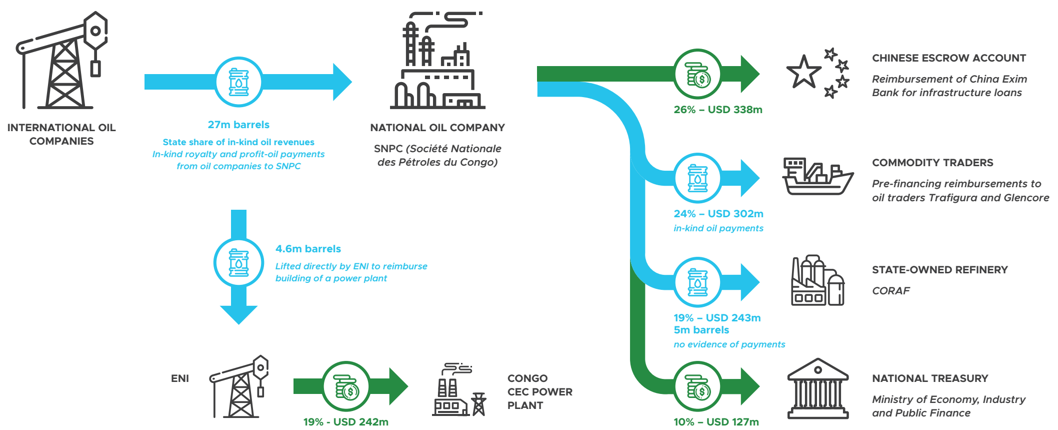
ALLOCATION OF IN-KIND OIL REVENUES IN THE REPUBLIC OF CONGO
IN USD FOR THE 2017 FISCAL YEAR



** This figure may be partly attributed to high cost recovery linked to IOC investments in new production facilities.*

*** Sales proceeds remitted to the treasury by SNPC (USD 95m), in addition to the proceeds of the government in-kind share sales by Total (net of the maritime tax) according to their trading agreement.*

**** Cost of state participation in Yanga and Sendji oil fields.*



Source: EITI International Secretariat, based on Republic of Congo's 2017 EITI Report.

CASE STUDY

Kazakhstan
Data collection

Below, an example of a data collection table showing a diagnostic of the rules and practices related to SOEs' financial relations with the state.

	Does a National Company have the right to determine its own dividend policy?	Does a National Company have the right to retain profits?	Does a National Company have the right to reinvest in its activities?	Does a National Company have the right to receive third-party financing (through the loans or the issue of its shares)?
Rules established by the law	Yes, it does. In accordance with the Law of the Republic of Kazakhstan on joint-stock companies, a national company has the right to determine its own dividend policy.	Yes, it does. The Law of the Republic of Kazakhstan on JSC, the Civil Code of the Republic of Kazakhstan, the Law of the Republic of Kazakhstan "About dividends on state shares and income on state shares in organizations", the Charter of the Company, the Law of the Republic of Kazakhstan "On state property", Dividend policy of the Company	Yes, it does. The law of the Republic of Kazakhstan on JSC, the Law of the Republic of Kazakhstan "On State Property", the Charter, Dividend Policy.	Yes, it does. The law of the Republic of Kazakhstan on JSC, the Law of the Republic of Kazakhstan "On the Stock Market", the Charter; regarding the issue of securities - at the legislative level, regarding loans and credits - in accordance with the corporate documents of Samruk-Kazyna JSC
Resource	http://www.kmg.kz/rus/kompaniya/vnutrennie_dokumenty/ Information and legal system of normative legal acts of the Republic of Kazakhstan http://adilet.zan.kz/	Information and legal system of normative legal acts of the Republic of Kazakhstan http://adilet.zan.kz/	Information and legal system of normative legal acts of the Republic of Kazakhstan http://adilet.zan.kz/	Information and legal system of normative legal acts of the Republic of Kazakhstan http://adilet.zan.kz/

	Amount (value) of dividends paid by a National Company in 2017, thou. tenge	Cost of retained earnings of a National Company in 2017	Reinvestment cost of a National Company in 2017	Third-party financing costs in 2017
Samryk-Kazyna	11 899 000	In the annual financial statements on the official website of Samruk-Kazyna JSC https://www.sk.kz/		
Kazatomprom	65 848 704	586 998 000 thou. tenge	42 946 397 thou. tenge	The annual interest rate on loans with a fixed interest rate was 6.29% and for loans with a floating rate - 3.47%
KazMunayGas	41 330 046	reporting and disclosure http://ir.kmg.kz/ru 3 500 635 709 thou. tenge	299 177 098 thou. tenge	206 445 230 thou. tenge
Tau-Ken Samruk	5 617 478	114 585 487 thou. tenge	7 733 640 thou. tenge	681 963 thou. tenge
Qazgeology	79 467	none	none	none

Source: Kazakhstan's 2017 EITI Report addendum, pp.56-57.

Step 7
Describe any state or SOE loans or loan guarantees to extractives companies

The MSG should identify any active loans or loan guarantees from the state or from any SOE to any extractives companies or projects. Disclosures should include the loan or guarantee's tenor (i.e. the length of time until it is due) and key terms such as the repayment schedule and modalities, and interest rate. The MSG is encouraged to also consider any SOE loans and guarantees to non-extractives companies and projects.

CASE STUDY

Mongolia
Loans and guarantees

Below, an example of the complex list of loans and guarantees involving mining SOEs from Mongolia's 2017 EITI Report, although missing the terms of the loans.

SOEs	Loan/ Loan guarentee	Contract start date	Loan amount m	Contract term/ description	Loan period	Involved parties	Comment
Loans and loan guarantees issued by the Government							
Erdenes Tavan Tolgoi	Chalco loan	2011.07.26	USD 350	Agreement with Chalco 3%-10.4% annual interest rate		Chalco, GoM	Erdenes Tavan Tolgoi had been paying USD 350 million to Chalco since 2011. As of 31 March 2017, the loan was paid in full.
	Contract No 3-TZ-B-2012-144	2012	USD 100	For railway transportation development	36 months	DBM	
	Contract No. 3-ET-HO-2012-12-162	2012	USD 100	For export development	36 months	DBM	
Baganuur JSC	Budget loan	2016.10.04	MNT 16,800	Budget loan agreement		Ministry of Energy	Baganuur JSC took the loan with a purpose to continue its operation reliably, to repair and renovate the technology and devices, and to reserve fuel for the preparation of 2016-2017 winter.The loan was spent accordingly and paid in full within the fiscal year.
	Contract No. 3-BN-HO 2013-11	2013.04.23	MNT 18,634	DBM loan agreement		DBM	Baganuur JSC took a loan from DBM to renovate its technology. In 2016, an amount of MNT 4,740 m was paid towards the loan.
	Contract No. MOG-2854	1996.07.17	USD 31,127	Transferrable loan agreement with MoF regarding a loan from International Development Association with a gurantee issued by the MoF	12 months	MoF	In a scope of Mongol Coal project, Baganuur JSC took a loan from World Bank and Government of Japan with a guarantee issued by the MoF. In 2016. MNT 3,283 m was paid towards the loan.
	Contract No. MON-P4	1997.07.31	JPY 2,276	Transferrable loan Agreement with MoF regarding a loan from International Cooperation		MoF	

Source: Mongolia's 2016 EITI Report, p.120.

Step 7
Continued

Transparency in the provision of loans and guarantees from the state and SOEs to extractives companies is key to understanding the level of state financial support for mining, oil and gas companies, usually using taxpayer funds. Governance risks include subsidising private commercial companies, patronage through preferential lending to politically-exposed persons and off-budget loans by SOEs that are not reflected in sovereign debt statistics. In analysing disclosures, the MSG might also wish to compare the terms of these loans and guarantees to commercial loans, as encouraged by the EITI Standard.

CASE STUDY

Afghanistan
SOE loans at preferential terms

Below, a list of extensive interest-free loans by SOE North Coal Enterprise, including to extractives companies.

N. شماره	company شرکت	Beneficiary (Name of the Entity operating in extractive sector)	Amount at the beginnig of FY 1396	Terms of the Transaction					
				Date of the grant	New loans awarded in 1396	Interest rate	Amount reimbursed before 1396	Amount reimbursed in 1396	Outstanding amount by end 1396
1	North Coal Enterprise	Jabul Saraj Enterprise	111,752,153.00	22/3/1389	3,361,826	0	0	7,132,757	107,981,222
1	North Coal Enterprise	Kod e Barq Enterprise	22,000,000.00	17/06/1395	0	0	0	0	22,000,000
1	North Coal Enterprise	Afghan Gas Enterprise	44,643,600.00	1/10/1393	0	0	0	0	44,643,600
1	North Coal Enterprise	Accounting and finance department	1,500,000.00	28/01/1392	0	0	0	500,000	1,000,000
1	North Coal Enterprise	Geology Survey	430,000.00	24/01/1395	0	0	0	200,000	230,000
1	North Coal Enterprise	Shabarghan Hydrocorbon Dept	30,000.00	Before 1388	0	0	0	0	30,000
1	North Coal Enterprise	MoMP Petrolium Dpt	558,000.00	8/9/1393	0	0	0	358,000	200,000
1	North Coal Enterprise	Directorate office of MoMP	834,000.00	23/2/1394	600,000	0	0	234,000	1,200,000
1	North Coal Enterprise	AIC company	15,821,942.00	1,385	0	0	0	0	15,821,942
1	North Coal Enterprise	Afghan Coal electricity bill	0.00	-	84,772	0	0	0	84,772
1	North Coal Enterprise	Cement Ghoori	61,249,358.00	Before 1385	0	0	0	0	61,249,358
1	North Coal Enterprise	Inevestment Company	4,449,721.00	1,388	0	0	0	0	4,449,721
1	North Coal Enterprise	Hashemy Group	27,630.00	-	0	0	0	27,630	0
1	North Coal Enterprise	Guesthouse Electricity Bill	42.00	-	0	0	0	0	42
1	North Coal Enterprise	Afghan Textile Company	196,069.00	Before 1388	0	0	0	0	196,069
1	North Coal Enterprise	Balkh Water Supply	8,240.00	1,391	0	0	0	0	8,240
1	North Coal Enterprise	Balkh Technoloy Dept	10,339.00	Before 1390	0	0	0	0	10,339
1	North Coal Enterprise	Baghlan liquid mine Dpt	64,155.00	-	0	0	0	64,155	0
1	North Coal Enterprise	Baghlan Province	364,099.00	17/10/1391	0	0	0	0	364,099
1	North Coal Enterprise	Resonance Company	0.00	1,396	200,000	0	0	0	200,000
1	North Coal Enterprise	Abdul Razaq	7,000.00	1,367	0	0	0	0	7,000
1	North Coal Enterprise	Gaj Jalogy	47,400.00	Before 1380	0	0	0	0	47,400
1	North Coal Enterprise	Haji Zafar	8,861.00	Before 1380	0	0	0	0	8,861
1	North Coal Enterprise	Haji Rahyaab Construction Company	500,000.00	-	0	0	0	1,734,972	-1,234,972
1	North Coal Enterprise	ENG SHA MAHMOOD	157,600.00	1,393	0	0	0	0	157,600
1	North Coal Enterprise	HAJI ABDUL AHAD	3,000.00	1,392	0	0	0	0	3,000
1	North Coal Enterprise	HAJI MOHAMMAD WALI	3,882.00	-	0	0	0	3,882	0
1	North Coal Enterprise	GHULAM MUSTAFA	1,565.00	1,384	0	0	0	0	1,565
1	North Coal Enterprise	AGHA SHIRIN	47,850.00	1,380	0	0	0	0	47,850
1	North Coal Enterprise	MOHAMMAD ZAHIR	138,751.00	-	27,018	0	0	138,751	27,018
1	North Coal Enterprise	GULBADIN	232,345.00	-	392,804	0	0	232,345	392,804
1	North Coal Enterprise	RYKHTA GARY COMPANY	147,336.00	Before 1380	0	0	0	0	147,336

Source: Afghanistan's 2016-2017 EITI Report, p.163 & Annex 18.

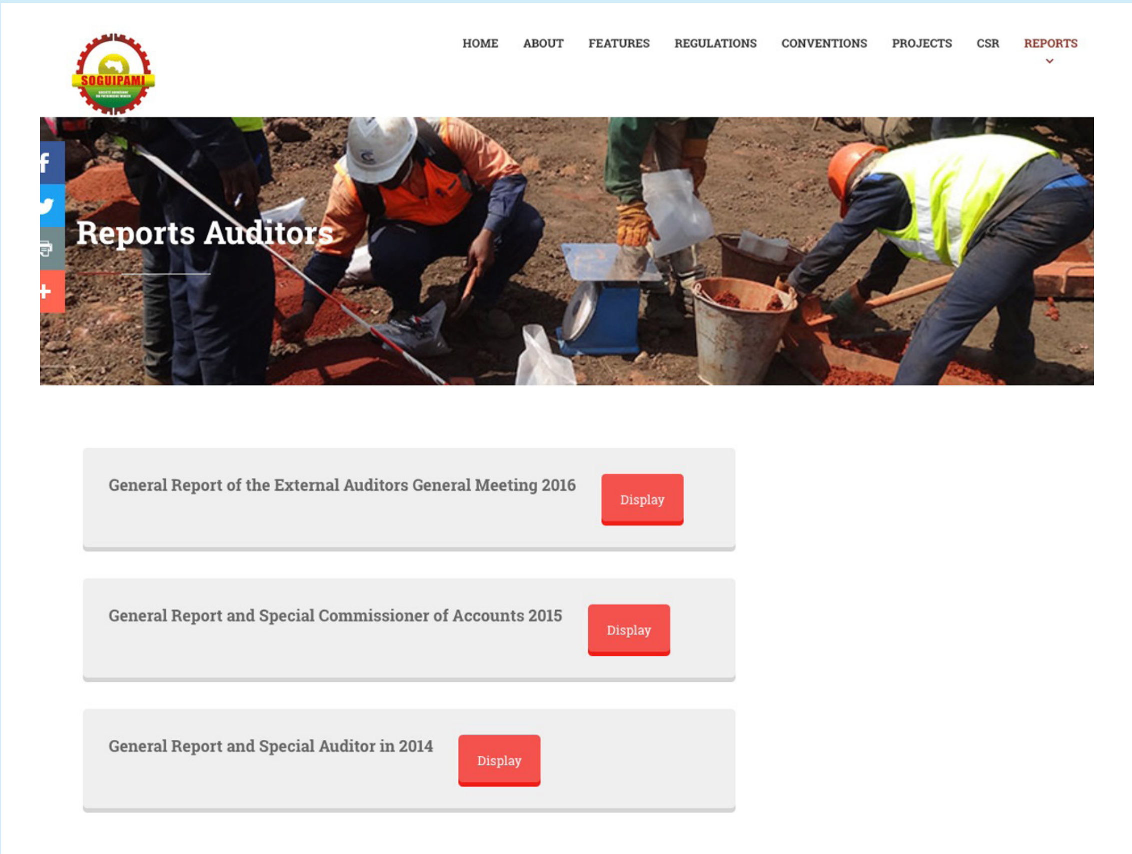
Step 8
Liaise with each material SOEs on the publication of their financial statements

Material SOEs are expected to ensure that their audited financial statements are publicly accessible. The latter should include not only the auditor's opinion and a summary of key financials, but also the company's full set of audited accounts, including its profit and loss statement, balance sheet and cash flows. Explanatory notes detailing the definition of key terms and accounting practices should be included.

CASE STUDY

Guinea
Audited financial statements

The national mining company SOGUIPAMI (Société Guinéenne du Patrimoine Minier) publishes its audited financial statements annually.



Source: SOGUIPAMI's website.

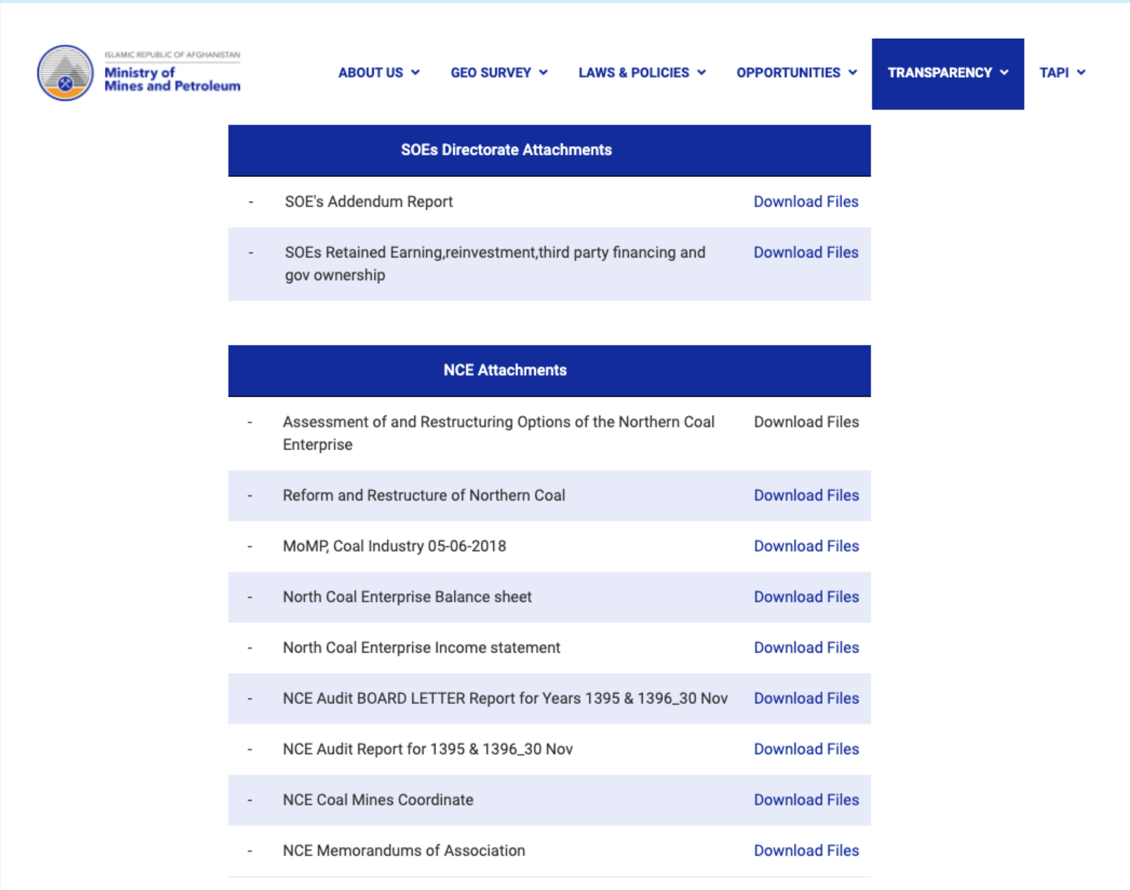
Step 8
Continued

The MSG should liaise with SOEs to assess the public accessibility of their financial statements. For SOEs that do not routinely publish their financial statements, the MSG should work with SOEs to identify any objections to such publication and find intermediary solutions. In cases where SOEs may not have financial statements, the MSG should liaise with SOEs' management to ensure that the main financial items are publicly disclosed, including their balance sheet, profit and loss statement and cash flows.

CASE STUDY

Afghanistan
Summaries of financial statements

Afghanistan systematically discloses the rules related to SOEs' financial relations with the state. The government publishes the audited financial statements of its two SOEs on its website, showing how these rules are carried out in practice.


ISLAMIC REPUBLIC OF AFGHANISTAN
Ministry of Mines and Petroleum
ABOUT US · GEO SURVEY · LAWS & POLICIES · OPPORTUNITIES · TRANSPARENCY · TAPI

SOEs Directorate Attachments	
- SOE's Addendum Report	Download Files
- SOEs Retained Earning,reinvestment,third party financing and gov ownership	Download Files

NCE Attachments	
- Assessment of and Restructuring Options of the Northern Coal Enterprise	Download Files
- Reform and Restructure of Northern Coal	Download Files
- MoMP, Coal Industry 05-06-2018	Download Files
- North Coal Enterprise Balance sheet	Download Files
- North Coal Enterprise Income statement	Download Files
- NCE Audit BOARD LETTER Report for Years 1395 & 1396_30 Nov	Download Files
- NCE Audit Report for 1395 & 1396_30 Nov	Download Files
- NCE Coal Mines Coordinate	Download Files
- NCE Memorandums of Association	Download Files

Source: Afghanistan's Ministry of Mines and Petroleum, SOEs

Step 8
Continued

The MSG should also consider whether the SOE and relevant government entities providing information related to state participation are subject to credible, independent audit, applying international auditing standards, in accordance with Requirement 4.9 of the Standard.[4] The MSG should assess whether financial statements were prepared based on international accounting standards and whether they were audited in line with international standards.

CASE STUDY

Mongolia
SOE Board of Directors

Below, an overview of the composition of the Board of Directors of SOEs in Mongolia.

Appendix 24.a: Board of Directors (SOEs)

No.	Company name	Representing Entity	BOD names	Position	Government (Public -Local), Company or Independent	Ownership%	BOD Position (director, member, independent member)		
							Director	Member	Independent member
1	Erdenes Mongol LLC	Cabinet Secretariat of Government of Mongolia	B.Daajamba	Deputy Head					
		Ministry of Environment and Tourism	Ts.Tsengel	Secretary of State					
		Ministry of Finance	E.Altanzul	Head of the General Budget Policy and Planning Division					
		Cabinet Secretariat of Government of Mongolia	E.Bat-Ider	Head of Monitoring and Evaluation and Internal Audit Department					
		Ministry of Mining and Heavy Industry	B.Batkhuu	Head of the International Cooperation Department	Public	90%		+	
		Erdenes Mongol LLC	Ts.Tumentsogt	Chief Executive Director	+	75%		+	
2	Shivee Ovoo LLC	Erdenes Mongol LLC	B.Ariunbold	First Deputy Head	Public	90%	+		
		Erdenes Mongol LLC	S.Tselmeg	Deputy Head	Public	90%		+	
		Erdenes Mongol LLC	D.Bold	Head	Public	90%		+	
		Ministry of Mining and Heavy Industry	B.Batkhuu	Head of the International Cooperation Department	Public	90%		+	
		Erdenes Mongol LLC	J.Tumurpurev	Head	Public	90%		+	
		Gobi Karavan LLC	J.Purevbaatar	Head of Business Development Department		10%		+	
		Retired	D.Batsukh	Retired	Independent	0%			+
		The Mongolian University of Science and Technology, School of Geology and Mining Engineering	D.Dondov	Advisory Professor	Independent	0%			+
		Parliamentary office	Ts.Tsolmon	Secretary General	Independent	0%			+
3	Baganuur LLC	Ministry of Energy	Z.Mendsaikhan	Secretary of State	+	75%	+		
		Erdenes Mongol LLC	Ts.Tumentsogt	Chief Executive Director	+	75%		+	
		Erdenes Mongol LLC	S.Erdenebulgan	First Deputy Director	+	75%		+	
		Erdenes Mongol LLC	G.Ganbold	Deputy Head of Finance Department	+	75%		+	
		Ministry of Mining and Heavy Industry	G.Nandinjargal	Secretary of State	+	75%		+	
		Ministy of Finance	N.Narangerel	Head of Finance, Risk and Control Department	+	75%		+	
			O.Bazragch	Representative of Mongolian National Coal Corporation LLC	+	21%		+	
			B.Narantsetseg	Representative of Mongolian National Coal Corporation LLC	+	21%		+	
		Zolach LLC	D.Altantsetseg	Director					+
		Mongoliin Ermelzlel NGO	B.Ochbadrakh	Director					+
			G.Davaajargal	Retired					+
		Ulaanbaatar Audit Corporation LLC	B.Osorgarav	General Director					+

Source: Mongolia's 2016 EITI Report annexes, p.117.

4. EITI Guidance on data quality and assurance (Requirement 4.9) https://eiti.org/guide/data-quality-assurance

Step 9
Explore disclosure opportunities for SOEs' procurement, subcontracting and corporate governance

The MSG is encouraged to consider opportunities for disclosing additional information on SOEs' management of expenditures (operating and capital), procurement, subcontracting and corporate governance. The latter can include disclosures around the composition of the Board of Directors, appointment of the Board of Directors and management, the mandate of the Board of Directors, and any code of conduct that would apply to SOEs' management staff. The MSG could also consider conflict of interest policies for the Board of Directors and management.

An analysis of existing data through EITI reporting would help shed light on governance risks, such as the use of operating expenditures to cover non-core spending, procurement secured by SOEs at different rates than commercial ones from companies owned by politically-exposed persons, political interference in the appointment of SOEs' Board of Directors and the absence of safeguards against conflicts of interest in the management of SOEs'. Such an analysis could also contribute to an audit of an SOE's functioning in accordance with its mandate.

The MSG could consider the following aspects in its review of SOE expenditures[5]:

- Disaggregation by upstream, midstream and downstream;
- Expenditures on exploration, appraisal, development and production;
- Expenditures on infrastructure linked to processing, refining, transportation and distribution;
- Expenditures on core and non-core activities.

5. See for instance pp.92-105 of PIAC (2018), 'ANNUAL REPORT ON THE MANAGEMENT AND USE OF PETROLEUM REVENUES FOR THE PERIOD 2018', https://www.piacghana.org/portal/files/downloads/piac_reports/piac_2018_annual_report.pdf

CASE STUDY

Cameroon
Corporate governance

Below, a brief overview of the corporate governance of Cameroon's national oil company SNH (Société Nationale des Hydrocarbures), with link to its organigramme.

Société Nationale des Hydrocarbures (SNH)

Pour la période sous revue, la SNH était encore une société publique, à caractère industriel et commercial, dotée de l'autonomie financière, au terme du décret du 12 mars 1980 portant création de la SNH. La loi du 12 juillet 2017 portant statut général des Entreprises publiques fait désormais de la SNH, une société à capital public avec comme unique actionnaire, l'Etat. Elle a pour missions de promouvoir et valoriser le domaine minier national et de gérer les intérêts de l'État dans le secteur des hydrocarbures. Pour l'accomplissement de ces missions, la SNH est habilitée à :

- conduire les études relatives aux hydrocarbures ;
- collecter et conserver les informations qui s'y Rapportent ;
- conduire les négociations des contrats pétroliers et gaziers, en liaison avec les départements ministériels en charge des Mines, des Finances, de l'Énergie, de l'Économie, du Commerce et de l'Environnement ;
- suivre l'exécution des contrats pétroliers et gaziers passés entre l'État et les sociétés intervenant dans le secteur des hydrocarbures ;
- promouvoir la réalisation d'infrastructures de production, de transport, de traitement et de stockage des hydrocarbures sur le territoire national ;
- collecter le gaz naturel auprès des sociétés productrices et le transporter vers les industries, les producteurs d'électricité, les autres clients éligibles, les sociétés de distribution et les sites de traitement ;

- conclure, en tant que de besoin, des accords avec les sociétés exerçant dans le domaine de la production, du transport, de la distribution, de la transformation ou du stockage des hydrocarbures installées au Cameroun ;
- contribuer à la formulation et à la mise en œuvre par l'État, de sa politique de gestion du secteur aval des hydrocarbures ; et
- accomplir avec le Ministère en charge des finances toutes les opérations financières.

La SNH est placée sous la tutelle de la Présidence de la République qui en assure la supervision ; elle est gérée par un Conseil d'Administration qui a la charge de concevoir les stratégies et de mettre en œuvre les plans opérationnels. La composition du Conseil d'Administrations ainsi que l'organigramme de la SNH sont disponibles sur son site web : http://www.snh.cm/index.php/fr/presentation-de-la-snh/organigramme.

La SNH déroule ses missions sur la base d'un plan de développement quinquennal, décliné en plans d'actions annuels et dispose d'une autonomie financière pour la gestion de ses activités.

La SNH est en réalité un groupe qui détient des participations dans diverses sociétés du secteur pétrolier, parapétrolier et connexe. Le portefeuille de la SNH compte 14 Entreprises dont le détail se présente dans la Section 4.1.5.4.

Source: Cameroon's 2017 EITI Report, p.48-49.

Dissemination and use of data

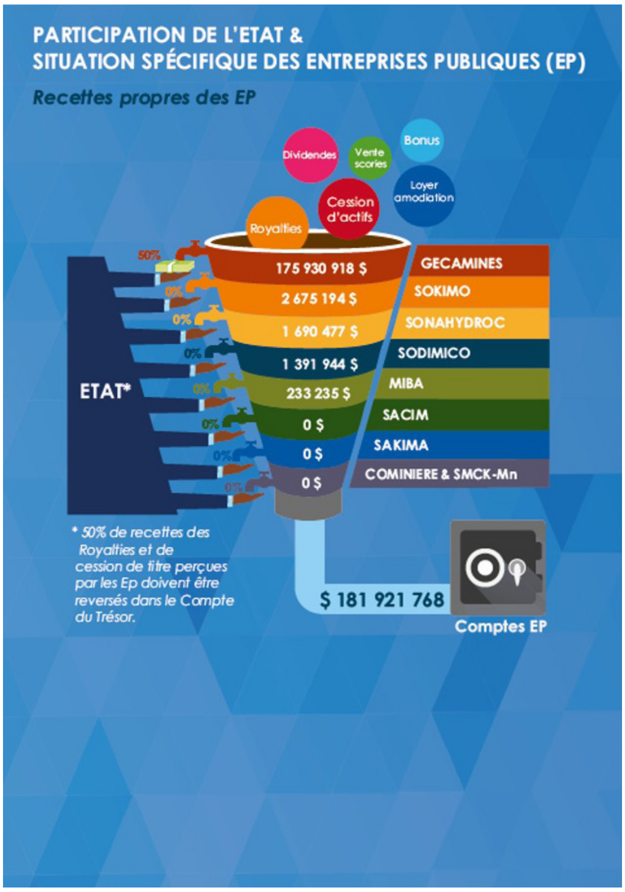
Depending on the objectives defined in the EITI work plan, relevance in country and stakeholder demand, there may be various opportunities for MSGs to disseminate information on state participation and support stakeholders in using and analysing the data. Stakeholders in government may be interested in assessing whether revenues from SOEs are in line with the company's performance and use the data as evidence on which to base key reforms, either towards socio-economic or corporatisation targets. Public oversight actors can analyse the disclosures to better understand the management of large shares of extractive revenues and assets on behalf of citizens.

Source: DRC's 2016 EITI Supplementary Report.

Thematic reporting on SOE transparency in the DRC. Issues surrounding state participation in the DRC's extractive industries have generated substantial public debate, most notably on largest mining SOE GÉCAMINES management of extractive licenses. Other SOEs have also attracted public attention over their perceived lack of transparency in management of government revenues following reports and analysis by civil society.[6] The findings and recommendations from these studies were discussed by the MSG, which agreed to investigate the findings and improve SOE disclosures through EITI reporting. DRC EITI access were provided access to the 2016 financial statements of nine extractives SOEs for the first time, which were analysed by external consultants.

6. TCC (November 2017), 'A State Affair: Privatising Congo's Copper Sector', https://www.cartercenter.org/news/pr/drc-110317.html; Global Witness (July 2017), 'Regime cash machine: How the Democratic Republic of Congo's booming mining exports are failing to benefit its people', https://www.globalwitness.org/en/campaigns/democratic-republic-congo/regime-cash-machine/, accessed in November 2018.

The analysis published by DRC EITI found that most of the financial statements were unaudited and there were inconsistencies in the types of documents SOEs provided. The analysis of financial statements also showed that i) SOEs did not consistently transfer shares of extractive revenues to the state Treasury as per the regulatory framework, ii) the main SOE did not adhere to existing rules with regards to the sale of state assets in its joint-venture operations, iii) SOEs were operating despite losses year after year, and iii) GÉCAMINES had contracted commercial loans from private companies, including commodity trader Trafigura and largest mining project in the DRC Tenke Fungurume. As of April 2020, the MSG was preparing a follow-up report on state participation to further clarify disclosures under Requirement 2.6.



Source: DRC's 2016 EITI Supplementary Report.

Further resources

- EITI (2018), 'Upstream Oil, Gas and Mining SOE Governance Challenges', https://eiti.org/document/upstream-oil-gas-mining-soe-governance-challenges
- World Bank (2014), 'Corporate Governance of State-Owned Enterprises: A Toolkit', http://documents.worldbank.org/curated/en/228331468169750340/Corporate-governance-of-state-owned-enterprises-a-toolkit
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- NRGI (2015), 'State Participation and State-Owned Enterprises: Roles, Benefits and Challenges', https://resourcegovernance.org/sites/default/files/nrgi_State-Participation-and-SOEs.pdf
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- IMF (March 2007), 'Fiscal Transparency Manual 2007', https://www.imf.org/external/np/pp/2007/eng/051507m.pdf
- IMF (January 2019), 'Fiscal Transparency Initiative: Integration of Natural Resource Management Issues', https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/01/29/pp122818fiscal-transparency-initiative-integration-of-natural-resource-management-issues

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