

28TH EITI BOARD MEETING

NAY PYI TAW, 15-16 OCTOBER 2014

Validation Committee

30 September 2014

Board paper 28-6-A

Secretariat Review: Chad

For decision

Recommendation:

The Validation Committee recommends to the Board that Chad is designated EITI Compliant.

SECRETARIAT REVIEW: CHAD

Recommendation

The Validation Committee makes the following recommendation to the Board:

The EITI Board designates Chad as Compliant with the EITI Requirements as of <15 October 2014>. In accordance with the EITI Standard:

- *Chad must be revalidated within three years i.e. Validation will commence on <15 October 2017 > or earlier upon request of the High National Committee. Validation will be conducted in accordance with the EITI Standard.*
- *Stakeholders in the process may call for a new Validation at any time within that period if they think the process needs reviewing. Where valid concerns exist that a country has become compliant with the EITI Requirements, but its implementation of the EITI has subsequently fallen below the required standard, the Board reserves the right to require the country to undergo a new Validation or face delisting from the EITI.*
- *In accordance with the EITI Standard, Chad is expected to produce EITI Reports annually. EITI Reports should cover data no older than the second to last complete accounting period. Chad is required to produce the 2013 EITI Report by 31 December 2015 in accordance with the EITI Standard.*
- *In accordance with Requirement 7.2, Chad is required to publish an annual report on the previous year's activities, detailing progress in implementing the EITI. The annual report for 2014 should be published by 1 July 2015.*

The Board congratulates the Government of Chad for its sustained commitment and leadership of the EITI process. The Board also congratulates the EITI Chad High National Committee for its efforts and innovative approaches to EITI implementation including widening the scope of the EITI to include transit fees and the oil refining in its EITI reporting.

The Board welcomed the renewal of the High National Committee and the development of a new workplan in accordance with the EITI Standard.

SECRETARIAT REVIEW: CHAD

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SECRETARIAT REVIEW: CHAD

1 Executive Summary

On 23 August 2013 the EITI Board established eight corrective actions required for Chad to achieve compliance with the EITI requirements¹. The High National Committee (HNC) published the 2012 EITI Report in March 2013 and subsequently invited the International Secretariat to assess whether the remaining EITI Requirements had been met. In the Secretariat's view, all remedial actions have been completed and the outstanding Requirements are met. The draft Secretariat Review was circulated to the HNC on 14 September. The Secretariat received comments on 23 September 2014.

Table 1 –Secretariat assessments of the outstanding requirements.

Remedial action required by the Board	1	2	3	4	5	6	7	8
Corresponding requirements in the EITI Rules, 2011 edition	5	8	9	11	12	13	14	15
Secretariat's assessment	ü			ü	ü	ü	ü	ü

2 Introduction

Oil was first discovered in Chad in the 1960s, but due to political instability and lack of investment, production began only in the early 2000s. Between 1973 and 1975, a consortium of multinational companies (Royal Dutch Shell (37.5%), Exxon (25%), Chevron (25%), and Conoco (12.5%)) discovered oil in varying amounts in the Doba, Doseo and Lake Chad basins. A civil war broke out in Chad in 1981 halting all exploration activities and several companies withdrew from the project. In 1989, Exxon became the lead shareholder with a 40% share and oil was discovered soon after in the Bolobo field. Chad needed significant investment to develop the infrastructure necessary to transport the oil from a landlocked region in the middle of Africa to international markets. In 1996, the Government of Chad and the Government of Cameroon signed a bilateral agreement for the construction and operation of a 1070 km pipeline from multiple oil fields in Kome, Chad to an export terminal on the Atlantic Ocean in Kiribi, Cameroon. The World Bank played an important role in mobilising funding for the pipeline, in exchange for the government commitment to use oil revenues for poverty reduction. In 1997, the consortium signed a Memorandum of Understanding (MoU) with the Government of Chad and the Government of Cameroon endorsing the bilateral agreement. The pipeline was inaugurated in July 2003.

Chad's economy has been highly dependent on the oil sector since production began in 2003. However, production peaked at 182,000 barrels per day in 2005 and declined steadily, before stabilising at around

¹ Board Circular 157

110,000 barrels per day in 2011. In 2012, the Government of Chad collected more than US \$2 billion in oil revenue, representing over 66% of total government revenue. The government is projecting a significant increase in oil production as new oil fields around Lake Chad come to production in 2014 and 2015. Proven reserves are estimated to be at about 1.5 billion barrels, which makes the Chadian reserves the tenth largest in Africa. The mining sector has so far been negligible, with artisanal gold mining and exploration for uranium being most prominent.

Chad announced its intention to implement the EITI in 2007 and was admitted as a Candidate on 16 April 2010. Implementation of the 2010-2012 workplan experienced significant delays due to the lack of funding at the beginning of the process. In October 2012, Chad published its first Report covering the 2007, 2008 and 2009 fiscal periods, which did not meet the requirement for regular and timely reporting. The second and third Reports covering 2010 and 2011 were published on 15 May 2013.

Chad's original Validation deadline was 15 October 2012, but the country experienced difficulties in the recruitment of an accredited Validator and requested an extension of the deadline. At its meeting in Lusaka in October 2012, the Board extended the Validation deadline by six months to 23 May 2013. The final Validation report was endorsed by the MSG and submitted to the International Secretariat on 23 May 2013.

The Validator concluded that Chad had not met all the requirements. Specifically, the Validator concluded that Requirements 5, 8, 11, 12, 13, 14 and 15 were not met.

The Board concluded that Chad had made meaningful progress in implementing the EITI, but that compliance with the EITI Requirements had not been achieved. The Board gave Chad until 23 August 2014 to complete eight remedial actions.

The remedial actions agreed by the Board related to Requirements 5, 8, 9, 11, 12, 13, 14 and 15:

1. The MSG should agree and publish a fully costed workplan, containing measurable targets and a timetable for implementation incorporating an assessment of capacity constraints (Requirement 5). In accordance with the transitional procedures for the EITI Standard, Chad is expected to agree and publish a workplan for 2014 by 31 December 2013.
2. The government is required to remove any legal, regulatory or other obstacles to implementation (Requirement 8).
3. The MSG is required to agree a clear definition of "material payments and revenues" and incorporate this definition into the reporting templates and procedures for the next EITI Report. This should specifically address the materiality of payments and revenues to subnational

government entities, and barter agreements if applicable (Requirement 9).

4. The government is required to ensure that all companies and government entities participate in the reporting process (Requirement 11). The Board highlights the suggestion in Requirement 11(b) that 'where a number of small operators pay revenues which are individually not material, but collectively material, the MSG may wish to request that the government discloses the combined benefit streams from such small operators', and Requirement 4.2(b) in the EITI Standard.
5. The government is required to ensure that company reports are based on audited accounts to international standards (Requirement 12), and that the MSG agrees a strategy to address this issue.
6. The government is required to ensure that government reports are based on audited accounts to international standards (Requirement 13), and that the MSG agrees a strategy to address this issue.
7. The government is required to ensure that participating companies comprehensively disclose all material payments in accordance with the agreed reporting templates (Requirement 14).
8. The government is required to ensure that participating government entities comprehensively disclose all material revenues in accordance with the agreed reporting templates, and that they build their capacity in order to fulfil this task (Requirement 15).

Following the publication of the 2012 EITI Report, the HNC wrote to the International Secretariat on 30 July 2014 noting that remedial actions had been completed.

3 Chad's response to the Board decision

The HNC has submitted evidence that these remedial actions were addressed as part of the 2012 EITI reporting process. Specifically, the HNC has:

- Agreed a workplan² that addresses the remedial actions requested by the Board, the recommendations from previous EITI Reports, and a schedule for the forthcoming EITI Reports and further workplan revisions.
- Agreed a process for lifting obstacles to EITI implementation, including addressing confidentiality clauses and creating a Monitoring of Extractive Revenues Unit at the treasury.

²The workplan is available at http://www.itie-tchad.org/publication/rapport/Itie_Tchad_Plan_National_Actions_ITI2013-2015.pdf

- Conducted a scoping study to establish which revenue streams were material and consequently which companies and government entities should be covered in the EITI Report. Based on the findings of the scoping study, Chad agreed a definition of materiality and established a materiality threshold of US\$ 100 000.
- Ensured that all 16 oil and gas companies and five mining and quarrying companies that made payments above the materiality threshold participated in the reporting process. According to the Independent Administrator, payments from these companies accounted for over 99.8% of total revenues.
- Ensured that all government entities that received material revenues reported.
- Agreed an approach for assuring the data submitted by companies and government entities, and ensured compliance with this approach.
- Agreed an action plan for following up on the recommendations from EITI reporting, and either completed or begun implementing the action plan.
- Ensured extensive dissemination of the 2010, 2011 and 2012 EITI Reports.

The High National Committee's summary report on Chad's response to the corrective actions, including supporting evidence is available in Annex B.

Based on the above, the EITI International Secretariat proceeded with a Secretariat Review. The Terms of Reference for the review are presented in Annex C. The International Secretariat conducted a desk review in August 2014. During the review, stakeholders in Chad were consulted and given an opportunity to comment.

4 Secretariat Review of remedial actions and assessment of requirements

The EITI Board agreed eight remedial actions and tasked the Secretariat with reassessing compliance with Requirements 5, 8, 9, 11, 12, 13, 14 and 15.

4.1 Remedial Action 1

The MSG should agree and publish a fully costed workplan, containing measurable targets and a timetable for implementation incorporating an assessment of capacity constraints (Requirement 5). In accordance with the transitional procedures for the EITI Standard, Chad is expected to agree and publish a workplan for 2014 by 31 December 2013.

Validator's findings

The Validator noted that prior to Chad's admission as a Candidate country, a workplan for 2010-2012 had been formally approved and published by the HNC. However, implementation was significantly

delayed, due to obstacles to EITI implementation (Requirement 8). The HNC subsequently approved a workplan for the first half of 2013. The Validator raised concerns that the first workplan had not been implemented, and the second workplan was limited to the first half of 2013. In addition, the workplan was incomplete, lacking an assessment of capacity constraints and details on the scope of the 2010 and 2011 EITI Reports. The Validator noted that the 2010-2012 workplan was generally imprecise and omitted some important activities, such as an assessment of capacity constraints and concluded that the requirement was unmet. The EITI Board agreed with the Validator's findings that the multi-stakeholder group had failed to publish regularly updated workplans. The Board requested the High National Committee to publish an up-to-date workplan by 31 December 2013, taking into account the transitional procedures to the new Standard.

Progress since Validation

Following the Board decision in August 2013, the HNC tasked a working group to undertake a detailed review of the EITI process and identify short to medium term objectives and activities for the period 2013-2016. Based on the working group recommendation, the HNC adopted and published³ a fully costed workplan covering the years 2013-2015, in December 2013. The workplan identified clearly defined activities, and a timetable for implementation. Following the publication of the workplan, the HNC subsequently conducted an assessment of capacity constraints and obstacles to EITI implementation. On 14 August 2014, President Idriss Deby Itno signed decree amending the 2007 decree that created Chad EITI. The new decree reduced the number of MSG members from 38 to 25 and called for the renewal of the MSG membership. The decree made participation in the EITI mandatory for all operating companies and relevant government agencies.

Secretariat's Assessment

The International Secretariat's assessment is that in accordance with the corrective actions requested by the Board, the HNC has agreed and published a fully costed workplan, containing measurable targets and a timetable for EITI implementation.

- The workplan includes detailed overview of the recommendations from the 2010 and 2011 EITI Reports and the recommendations made by the Validator, including the corrective actions requested by the Board.
- As it relates to Requirements 5, the workplan includes activities for the assessment of capacity constraints and capacity building activities in the second quarter of 2014. The HNC commissioned a

³ The workplan is available at http://www.itie-tchad.org/publication/rapport/Itie_Tchad_Plan_National_Actions_ITI2013-2015.pdf

study of capacity constraints that identified key capacity constraints and made recommendations on addressing these issues. The consultant (CAC75) carried out an assessment⁴ of capacity constraints in July 2014, which identified key challenges facing stakeholders and made recommendations on how these issues could be addressed in a detailed training plan.

- The workplan did not include a list of companies operating in the extractive sector, but rather a plan for establishing the scope of the 2012 EITI Report through a scoping study that would include a list of all oil, gas and mining companies operating in Chad in 2012. The scoping study for the 2011 EITI Report already contained a list of all oil and gas companies that had concession agreements with the government in 2011. Outreach and training activities for new reporting entities were included in the 2013-2015 workplan.
- The workplan has been published on the Chad EITI [website](#) and widely disseminated.
- The workplan includes measurable and time bound targets, objectives, activities, actions and responsible parties.
- As it relates to Requirement 8, the workplan includes institutional reforms to lift legal regulatory obstacles to EITI implementation. The extent to which barriers to EITI implementation have been lifted is considered in more details in the assessment of remedial action 2 below.
- As it relates to Requirements 9, 12 and 13, the workplan includes a plan for a scoping study to be completed in the first quarter of 2014. The extent to which these activities have been implemented is considered in the assessment of the remedial actions 3, 5 and 6 respectively.
- As it relates to disclosure requirements (11, 14 and 15) the workplan includes a plan for the preparation of an EITI Report for the 2012 fiscal period to be published in the second quarter of 2014. The extent to which these requirements have been met is considered in more details in the assessment of remedial actions 4, 7 and 8 respectively.
- The workplan includes a review of the internal governance and dissemination activities for the 2010 and 2011 EITI Reports, which were completed in the second quarter of 2013, and plans for disseminating the 2012 EITI Report in the third and last quarter of 2014.
- The workplan is fully costed. A total of US\$6.5 million is allocated to implementation activities over the three year period 2013-2015. Ninety percent of the funding is provided by the government, and

⁴ CAC 75, "Évaluation des Contraintes des Différents Acteurs de la Mise en Œuvre de l'ITIE et Élaboration du Plan de Formation" of July 2014 available at http://www.itie-tchad.org/publication/rapport/Rapport_reforcement_capacite.pdf

10% from the World Bank, the African Development Bank and the European Union.

It should be noted that, while this assessment is conducted in accordance with the EITI Rules, further work on the 2014 workplan is recommended to fully comply with the workplan requirements of the EITI Standard. The Secretariat assessment is that Chad is on track with the implementation of its workplan, which is fully costed and aligned with reporting and Validation deadlines. Further detail on issues including reporting by SOEs is recommended.

It should also be noted that there are ongoing reforms of the MSG⁵, including renewal of the MSG. In accordance with the presidential decree published on 14 August, Mr Djerassem Le Bemadjel, Ministry of Energy and Petroleum (MEP) and chair of the MSG issued a call for nomination of representatives from each constituency: government, civil society and companies.

The EITI International Secretariat is satisfied that the remedial action requested by the Board has been completed and that Requirement 5 of the EITI Rules is met.

4.2. Remedial Action 2

The government is required to remove any legal, regulatory or other obstacles to implementation (Requirement 8).

Validator's findings

The Validator noted that “the difficulties faced by the administration are a major obstacle to complete EITI implementation” (CAC 75, Chad Validation Report, May 2013 p. 52) and concluded that the requirement was unmet. Lack of record keeping systems and confidentiality clauses caused major delays in the publication of Chad’s first EITI Reports. The Board agreed with the Validator that lack of adequate record keeping system to monitor oil revenues in the treasury represents a significant regulatory obstacle to EITI implementation.

Progress since Validation

In response to the Board decision, the government took the following reforms to lift regulatory and institutional obstacles to EITI implementation: (i) improve record keeping and traceability of the revenues; and (ii) include a transparency clause in future production sharing agreements as

⁵ On 14 August 2014, President Idriss Deby Itno signed decree N°854/PR/PM/MPME/2014 amending Decree N°1074/PR/PM/MP/2007 on the creation and functioning of the EITI-Chad. The new decree calls for the renewal of the MSG membership and make EITI disclosure mandatory for all operating companies and relevant government agencies.

recommended by the Validator⁶.

Record keeping

On 10 January 2014 the Minister of Finance and Budget signed a decision⁷ creating the Monitoring of Extractive Revenues Unit. This new office was tasked⁸ with:

- Identifying the revenue streams from the extractive industries
- Collecting information on SOEs (at central and regional level)
- Ensuring the effective centralisation of all information in the extractive sector to the Treasury
- Monitoring payments made by companies operating in the extractive sector project-by-project
- Collecting information on the costs incurred by the state in the development of the extractive sector
- Developing and updating a database for real time reporting and monitoring
- Working closely with the EITI-High National Committee to provide real-time information to users tax revenues from the oil, gas and mining sector

In addition to the creation of the revenue monitoring unit at the Treasury, the government took steps to improve revenue traceability and access to information from Citibank London, where companies pay taxes and the proceeds of oil sale from the state owned SHT (Société National Des Hydrocarbure du Tchad). The Minister of Finance and Budget, Mr Bedouma Kordje, asked Citibank to provide details of bank statements to the Ministry of Petroleum on a regular basis.

Confidentiality clauses

The government, through the Minister of Oil, Mines and Energy, Mr Djerassem le Bemedjiel, tasked a panel to draft a transparency clause that will be included in future contracts. The MSG reached a consensus on the principle to include an EITI clause in new contracts in May 2014. The panel was also

⁶ The HNC commissioned a study of legal barriers to EITI implementation, which concluded that the confidentiality clauses did not represent major obstacles to EITI implementation, but recommended to the government to “eliminate restrictions of confidentiality with respect to agreements and contracts themselves, and add provisions requiring contractors to participate in the EITI mechanisms” (Etude sur le Cadre Legal de la Mise en oeuvre de l’ITIE au Tchad, Ghislain Pastre, July 2011, p.23).

⁷ Minister of Finance Arrêté n° 11 of 10 January 2014, on the creation of the “*Cellule de suivi des encaissements issus du secteur extractif*”

⁸ Cahier des charges, 23 juillet 2013, http://www.itie-tchad.org/publication/autre/Itie_Cahier_des_Charges%20Cellule_Suivi_Recettes_Petrolieres.pdf

tasked with the mandate to review the terms of oil and mining codes and identify ways in which issues related to the confidentiality clauses can be addressed.

Secretariat's Assessment

The International Secretariat's assessment is that the High National Committee and the government have taken all necessary steps to address the legal, regulatory and institutional barriers to EITI implementation. The revenue tracking unit has been fully operational since March 2014. During her visit in N'Djamena, in June 2014, the Chair of the EITI Board, accompanied by the International Secretariat, witnessed first-hand the system of collecting, classifying, archiving, and monitoring of evidence of payments at the treasury. As a result of this reform, the government has access to more details on the payments made by each company. Data collected by the treasury are being used to monitor revenues, verify compliance with contractual obligations and for planning purposes.

The International Secretariat also notes that the government has made progress in addressing the issue of confidentiality clauses in its contractual obligations with oil, gas and mining companies.

The EITI International Secretariat is satisfied that the remedial action requested by the Board has been completed and that Requirement 8 of the EITI Rules is met.

4.3. Remedial Action 3

The MSG is required to agree a clear definition of "material payments and revenues" and incorporate this definition into the reporting templates and procedures for the next EITI Report. This should specifically address the materiality of payments and revenues to subnational government entities, and barter agreements if applicable (Requirement 9).

Validator's findings

The Validator noted that no materiality threshold was set for the reports 2007 to 2011 and that companies were asked to declare "all payments made above US \$100,000" only for "other significant payments" (CAC 75, Chad Validation Report, May 2013 p. 59). The Validator noted further that the companies ERHC, Global Petroleum, Griffith Energy Chad Ltd, Griffith Energy DOH and Petrochad Mangara Ltd began making payments to the State only in 2011, having signed their productions sharing agreements between January 2011 and November 2011 (CAC 75, Chad Validation Report, May 2013 p. 58), proving that they should not have been included in the scoping for 2007 to 2009.

The Board concluded that the Validator failed to provide sufficient evidence that the scoping was complete, that further work was required to establish the materiality of subnational payments, and concluded that the requirement was unmet.

Progress since Validation

In July 2013, the HNC commissioned Fair Links to conduct a scoping study to inform the 2012 EITI Reports, the reporting templates, and to subsequently produce the 2012. Based on this study⁹, the HNC agreed the definition of materiality, i.e. the revenue streams considered material and reporting thresholds, the reporting entities, a threshold for the margin of error, and the EITI reporting templates.

Definition of material revenue streams

Based on the scoping study, the High National Committee identified and agreed on a total of 21 revenue streams for the purpose of the 2012 report. Of the 21 identified revenue streams, 17 revenue streams were material in the hydrocarbon sector, 12 were materials in the transport sector (of these, 11 were overlapping and one additional revenue stream specific to the transport sector), and 11 revenue streams were material in the mining sector (of these 8 were overlapping with the hydrocarbon sector and three additional revenues streams specific to the mining sector). The revenue streams were identified through reviews of the applicable regime, including the oil and mining codes and respective regulations, the tax code, investment code, concessions and production sharing agreements. An additional reporting line entitled 'other significant payments' was added to the reporting template and reporting entities were asked to declare any other payment above the materiality threshold.

The scoping study confirmed that barter type agreements were not material during the reporting period. The HNC inquired about ongoing negotiations between the government and a Chinese company and received the assurance that the final agreement did not include barter clauses.

With regards to subnational payments, the tax legislation does not provide for direct payment of taxes by companies to local governments, however it does provide for a subnational transfer of 5% of direct revenue (royalties and dividends)¹⁰. These payments are made from a sequester account in London to the affected communities and monitored by the College of Control and Supervision of Oil Revenues (CCSRP).

Definition of a materiality threshold

Fair Links used data from the TOFE for the precedent fiscal period (Tableau des Opérations Financières de l'Etat) to suggest a reporting threshold of US \$100 000. It was estimated that this threshold would capture 99.8 % of the total revenues that the government had reported to have received in 2012. Data provided by the TOFE was consistent with publically available information from the government and IMF reports. The High National Committee approved the scope of the Report as recommended by the consultant.

⁹ Scoping study EITI CHAD 2012, Fair Links : http://www.itie-tchad.org/publication/rapport/Fair_Links_ITIE_Tchad_2012_Etude_de_cadrage.pdf

¹⁰ Law 002 / PR / 2006 of 11 January 2006 amending the 001 / PR / 1999

Contribution of the Oil, gas and mining sector (TOFE 2011)	
Revenue from the Hydrocarbon and mining sector in KUS \$	2 221 471
Share of revenues from the hydrocarbon sector reconciled in the 2011 Report	99.91%
Share of revenues from the mining sector reconciled in the 2011 Report	0.09%
Share of revenues from the extractive sector reconciled in 2011	99.82%
Suggested materiality threshold USD for the 2012 Report in US \$	100 000

Identifying reporting entities – companies

Regarding the identification of the participating companies in the 2012 EITI Report, the HNC identified all listed companies in the petroleum and mining registry in 2012, including companies that transport oil by pipeline and the oil refinery in N'Djamena. Nineteen oil and gas companies (4 in production, 11 in exploration, 2 in transport, 1 refinery and 1 SOE) and 15 mining companies (5 in exploration and 10 quarry companies) were identified as operating in the extractive sector during the reporting period. The mining sector is currently limited to exploration activities and contributed less than 1 percent of total revenues in 2011. The HNC concluded that these payments are not significant and revenues from the mining sector would be unilaterally disclosed by the government. In addition, of the 15 mining companies, 5 mining companies in exploration were required to unilaterally disclose their payments, while construction (cement Baoré) and quarrying companies whose extractive activity did not represent the main source of income for the company, were not included in the scope of the EITI Report 2012. All 19 companies operating in the oil and gas sector were required to report.

Identifying reporting entities – government

The scoping study identified five government entities receiving material benefit streams: the General Tax Office (DGI), the General Directorate of the Treasury and Public Accounting (DGTCP), the Directorate General of Customs and Indirect Taxes (DGDDI), the Ministry of Energy and Petroleum (MEP) and the SOE, Hydrocarbons Corporation of Chad, (SHT). The High National Committee decided that these five entities should be required to report

Secretariat's Assessment

Materiality

The International Secretariat's assessment is that in accordance with the remedial actions requested by the Board:

- The High National Committee has agreed a definition of "material payments and revenues" and incorporated this definition into the reporting templates and reconciliation process for the

2011/2012 EITI Reports.

- The High National Committee has investigated whether there were any existing barter arrangements and concluded that there were none.
- Similarly, the High National Committee has investigated whether there were any subnational payments and concluded that there were none.
- The High National Committee agreed to include further relevant information in the EITI Report including, production and in-kind revenues, the value of the in-kind revenue collected and sold by the SHT, and revenues from the transport of oil and from the oil refinery.

The EITI International Secretariat is satisfied that the remedial action requested by the Board has been completed and that Requirement 9 of the EITI Rules is met.

4.4 Remedial Action 4

The government is required to ensure that all companies and government entities participate in the reporting process (Requirement 11). The Board highlights the suggestion in Requirement 11(b) that 'where a number of small operators pay revenues which are individually not material, but collectively material, the MSG may wish to request that the government discloses the combined benefit streams from such small operators', and Requirement 4.2(b) in the EITI Standard.

Validator's findings

The Validator concluded that the requirement was unmet, mainly due to poor quality of reporting by government entities. The Board agreed with the Validator that the requirement was unmet, but rather because uncertainties about the comprehensiveness of the scoping making it impossible to ascertain whether all companies and government entities reported. The Validator did not clarify whether all companies with material payments reported.

Progress since Validation

In October 2013, the Minister of Hydrocarbon and Energy, Djerassem Le Bemadjiel wrote¹¹ to companies and government entities required to report requesting the publication of revenues in accordance with the EITI standard.

The HNC decided to exhaustively include all companies listed in the hydrocarbon and mining directory for 2012. Companies operating the pipeline TOTCO and COTCO and the oil refinery in N'Djamena (SRN) were also required to report.

Of the 19 oil and gas companies included in the scope, three companies: Viking exploration, Oil Trek

¹¹ Letter from the Minister of Petroleum and Energy N°859/PR/PM/MEP/HCN/CP/CSTP/2013 of 11/10/2013 to all oil, gas and mining companies operating in Chad on the preparation of the 2012 EITI Report.

Limited, and Simba Energy Inc did not report¹². The exploration licenses of these three companies were cancelled due to failure of payment of signature bonuses, and therefore did not make material payments to the government.

The HNC decided to integrate exhaustively all mining and quarrying companies registered in 2012, which did not meet the materiality threshold, but unilateral disaggregated government disclosure of receipts amounting to US \$2.053 million or 0.10% of total revenues confirmed that these payments were insignificant.

The framework, agreed with the World Bank during the project development phase, required that all of Chad's oil revenues be paid directly into an escrow account established at Citibank in London¹³. Mr Bedoumra Kordje, Minister of Finance wrote¹⁴ to Citibank requesting a detailed bank statement of payments made to and from Chad's escrow account.

Secretariat's Assessment

The International Secretariat's assessment is that all oil, gas and mining companies, and government entities identified as payers and recipients of material revenue streams participated in the reporting process. The Secretariat has verified that the oil and gas companies that failed to report were not operating during the reporting period or did not make material payments. The exploration license of Viking Exploration¹⁵ was cancelled in March 2012, due to failure of payment of signature bonuses, and therefore did not make material payments to the government. The exploration license of Oil Trek Limited¹⁶ was cancelled in October 2011 due to failure of payment of signature bonuses, and therefore was no longer operating in 2012. The exploration license of Simba Energy Inc approved¹⁷ in October 2012 was cancelled¹⁸ in October 2013 due to failure of payment of signature bonuses, and therefore did not make material payments to the government.

¹² EITI-Chad 2012 Report, Fair Links, March 2014, Page 50: http://www.itie-tchad.org/publication/rapport/FairLinks_ITIETchad_Rapport_2012.pdf

¹³ See annex D for a detailed description of the revenue Management Framework. http://web.worldbank.org/archive/website01210/WEB/0_CO-23.HTM

¹⁴ Letter N° 277/MFP/SG/DGTCD/2012 from the General Treasury to the account manager at Citibank

¹⁵ Letter from the Minister of Petroleum and Energy N°141/MP/SG/DEP/2012 of 13/3/2012 on the cancelation of a production sharing agreement with Viking Exploration

¹⁶ Letter from the Minister of Petroleum and Energy N°8412/MP/SG/DEP/2012 of 14/10/2011 on the cancelation of a production sharing agreement with Oil Trek Limited

¹⁷ Letter from the Minister of Petroleum and Energy N°564/PR/PM/MEP/HCN/CP/CSTP/2013 of 5/8/2013 on the request of payment of signature bonuses from Simba Inc

¹⁸ Letter from the Minister of Petroleum and Energy N°859/PR/PM/MEP/HCN/CP/CSTP/2013 of 3/10/2013 on the cancelation of production sharing agreement with Simba Inc

Company	Permit issued in	Permit cancelled on
Oil Trek	July 2011	October 2011
Viking Exploration	October 2011	October 2012
SIMBA ENEGY	October 2012	October 2013

Unilateral disclosures by the government of revenues received from mining companies and quarry companies below the threshold confirm that these revenues were immaterial.

The EITI International Secretariat is satisfied that the remedial action requested by the Board has been completed and that Requirement 11 of the EITI Rules is met.

4.5 Remedial Action 5

The government is required to ensure that company reports are based on audited accounts to international standards (Requirement 12), and that the MSG agrees a strategy to address this issue.

Validator's findings

The Validator noted that "based on the documents obtained and on the discussions held with the EITI stakeholders, the company data was not certified for the years 2007 to 2009 and was not in all cases certified for the years 2010 and 2011" (Chad Validation Report, CAC75, May 2013, p. 69). The Validator concluded that the requirement was unmet. The Board concurred with this assessment.

Progress since Validation

As part of its scoping study¹⁹ for the 2012 Report, the High National Committee agreed the following approach to data assurance for the companies:

- All reporting templates should be signed by a senior company official, the Chief Financial Officer in practice.
- All reporting templates should be certified by an external auditor.
- Supporting documents confirming that the payments had been effectuated should be provided to the independent Administrator.

¹⁹ Scoping study EITI CHAD 2012, Fair Links : http://www.itie-tchad.org/publication/rapport/Fair_Links_ITIE_Tchad_2012_Etude_de_cadrage.pdf

The Independent Administrator²⁰ confirmed that all companies complied with this approach. The Independent Administrator stated that “all companies in the hydrocarbon sector submitted certified statements by their external auditors”.

Secretariat’s Assessment

The Independent Administrator conducted a thorough reconciliation of revenues and payments in accordance with International Standards on Related Services (ISRS 4400 and ISRS 4410²¹). The Independent Administrator reconciled data transmitted by government entities to those transmitted by extractive companies, “for each company, for each [revenue] flow, payment by payment, date by date²²”.

The International Secretariat’s assessment is that the High National Committee agreed an approach for data assurance consistent with the Requirement 12 in the EITI Rules (2011 edition). The government took necessary steps to ensure that this approach was complied with all reporting entities.

The EITI International Secretariat is satisfied that the remedial action requested by the Board has been completed and that Requirement 12 of the EITI Rules is met.

4.6 Remedial Action 6

The government is required to ensure that government reports are based on audited accounts to international standards (Requirement 13), and that the MSG agrees a strategy to address this issue.

Validator’s findings

The Validator noted that “stakeholders were content with the approach of certification by means of letters of commitment, although stakeholders also lamented the weak capacities of the government entities” (Chad-Validation Report, CAC75 May 2013, p. 71).

The Validator found that letters of commitment by government agencies was unreliable and seriously jeopardised the quality of the information disclosed in EITI Reports. The Validator concluded that the requirement was unmet. The Board agreed with this assessment.

Progress since Validation

²⁰ EITI-Chad 2012 Report, Fair Links, March 2014, Page 53: http://www.itie-tchad.org/publication/rapport/FairLinks_ITIETchad_Rapport_2012.pdf

²¹ EITI-Chad 2012 Report, Fair Links, March 2014, Page 3

²² EITI-Chad 2012 Report, Fair Links, March 2014, Page 36

In the scoping study²³ for the 2012 Report, the High National Committee agreed the following approach to data assurance for the companies:

- All reporting templates should be signed by a senior government official, the Director General of the stated owned SHT in practice and the respective Director General of government entities required to report.
- All reporting templates should be certified by the General Paymaster (TPG) and the Deputy Director General of Customs and Indirect Taxes.
- Receipts confirming that the payments had been effectuated should be provided to the treasury.

The reconciler confirms that all government entities complied with this approach.

Secretariat's Assessment

The Chair of the EITI Board and the International Secretariat witnessed firsthand the record keeping system and procedures for quality assurance at the State's Treasury, during a visit in N'Djamena in May 2014. The Manual of Procedures of the Ministry of Finance and Budget provides clear guidelines and procedures to the TPG. At the time of the Chair's visit, the government was implementing a project to computerise the record keeping system and allow for real time monitoring of government revenues.

The International Secretariat's assessment is that the High National Committee agreed an approach for quality assurance to improve data reliability consistent with the corrective action requested by the Board.

The EITI International Secretariat is satisfied that the remedial action requested by the Board has been completed and that Requirement 13 of the EITI Rules is met.

4.7 Remedial Action 7

The government is required to ensure that participating companies comprehensively disclose all material payments in accordance with the agreed reporting templates (Requirement 14).

Validator's findings

In assessing this requirement, the Validator considered the approach to data reliability (Requirement 12) and confirmed the reconciler's view on the 2007 to 2009 reports that "the most significant company

²³ Scoping study EITI CHAD 2012, Fair Links : http://www.itie-tchad.org/publication/rapport/Fair_Links_ITIE_Tchad_2012_Etude_de_cadrage.pdf

declarations were not certified ..., not allowing to ensure in a perfectly reliable manner the nature and completeness of the declared data" (EITI-Chad Validation Report, CAC75 p. 73). For the 2010 and 2011 reports, the Validator stated that newly arrived exploration companies with potentially significant payments did not have their forms certified (EITI-Chad Validation Report, CAC75 p. 73). The Validator did not confirm whether discrepancies were due to incomplete reporting. The Board agreed with the Validator's conclusion that this requirement was unmet.

Progress since Validation

In October, 2013, Mr Djerasem Le Bemediél, Minister of Energy and Petroleum and Chair of the HNC wrote to all companies operating in the extractive sector to process the reporting templates "with the utmost diligence, and adequate documents attached in accordance with detailed instructions by the Independent Administrator Fair Links".

The findings of the Independent Administrator confirmed "the completeness of the data that has been transmitted to us", by companies and government entities (EITI-Chad 2012 Report, Fair Links, March 2014, p. 53). The Independent Administrator also stated that " the participation rate (16/19 companies) and the exhaustive declaration by all these companies of payments above 100 KUSD (50 million CFA francs), allow us to conclude that the 2012 EITI Report covers adequately all significant contributions made by extractive companies to the government of Chad"(EITI-Chad 2012 Report, Fair Links, March 2014, on p. 4).

The Independent Administrator also noted that "the reconciliation between the declarations made the government and those made by the companies in the oil and gas sector did not reveal any significant abnormalities"(EITI-Chad 2012 Report, Fair Links, March 2014, on p. 4).

Secretariat's Assessment

The International Secretariat's assessment is that while there were some minor discrepancies in the report resulting from omitted and unconfirmed tax declarations, these omissions amounted to 0.07% of total revenues and thus did not materially affect the EITI Report.

The EITI International Secretariat is satisfied that the remedial action requested by the Board has been completed and that Requirement 14 of the EITI Rules is met.

4.8 Remedial Action 8

The government is required to ensure that participating government entities comprehensively disclose all material revenues in accordance with the agreed reporting templates, and that they build their capacity in order to fulfil this task (Requirement 15).

Validator's findings

The Validator did not directly assess whether the government entities comprehensively disclosed all revenues received, or the materiality of any omissions, but generally questioned the quality of government disclosures by referring to weaknesses in data reliability (Requirement 13). The Validator concluded that the requirement is unmet. The Board agreed with this assessment.

Progress since Validation

Following the Board decision, the government took steps to ensure exhaustive disclosure by government entities. The government also unilaterally disclosed payments made by mining companies that made payments below the materiality threshold. Detailed reconciliations by the Independent Administrator did not reveal "any significant anomalies".

Given these factors, the Independent Administrator could "reasonably conclude that the EITI-Chad 2012 Report covers satisfactorily all significant contributions made in 2012 by companies in the hydrocarbon sector to the state budget" (EITI-Chad 2012 Report, Fair Links, March 2014, P 4).

Secretariat's Assessment

The International Secretariat's assessment is that the government has taken all necessary steps to ensure that its agencies comprehensively disclose all material revenues in accordance with the agreed reporting procedures. As part of the EITI reporting process, the government has created a robust mechanism to monitor revenues from the oil, gas and mining sectors. With the effective functioning of the newly created revenue tracking unit at the treasury, the government has sufficient capacities to comprehensively disclose all revenues from the oil, gas and mining sectors in timely manner.

The EITI International Secretariat is satisfied that the remedial action requested by the Board has been completed and that Requirement 15 of the EITI Rules is met.

5 Conclusion

The Board decision stipulated that eight remedial actions should be completed in order for Chad to achieve compliance with the EITI Requirements. The International Secretariat is satisfied that the remedial actions have been satisfactorily completed and that the outstanding requirements are met.

Annex A - EITI Board decision on Chad 26 October 2012

Available from EITI Board Circular 157 18 August 2013.

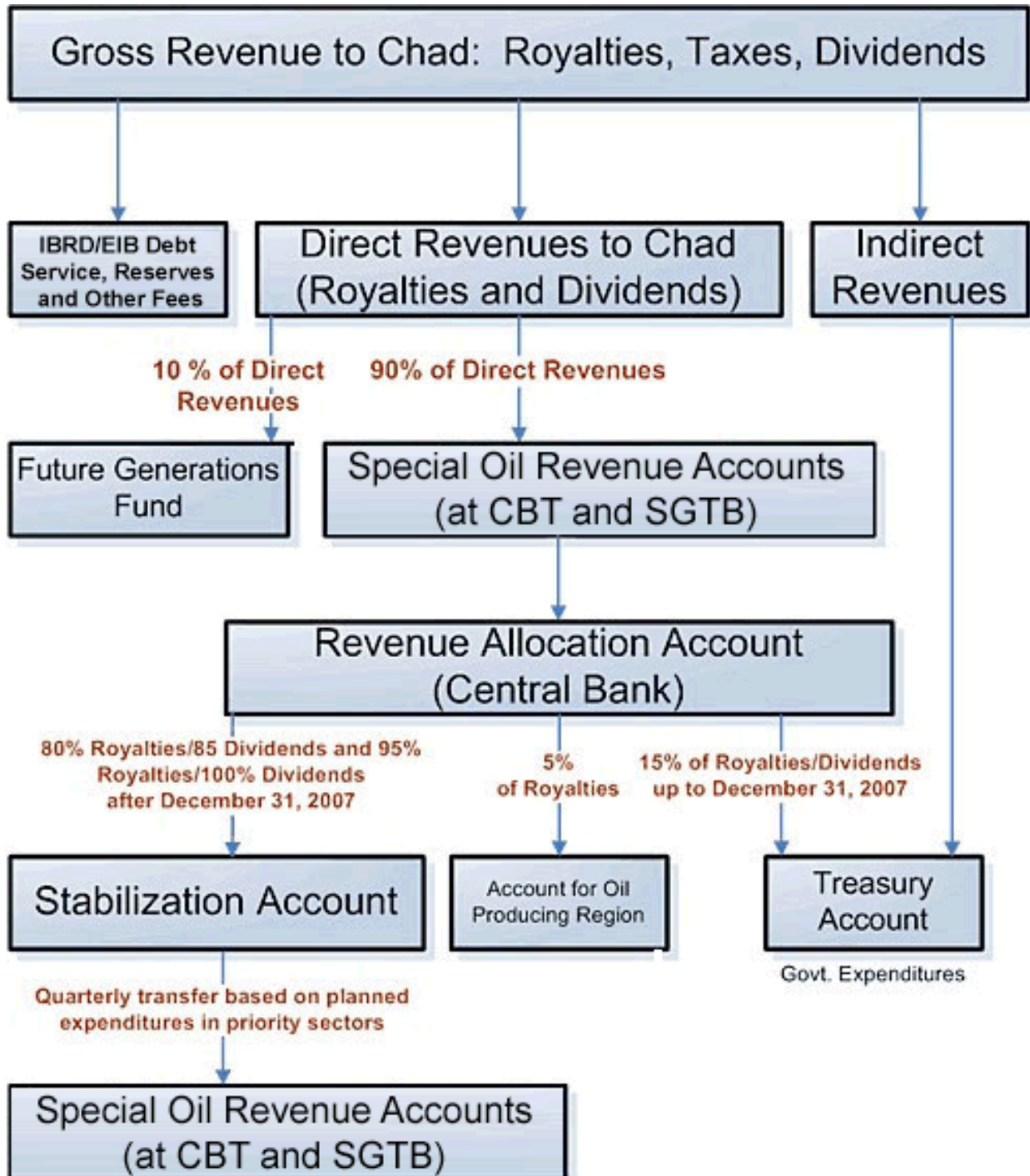
Annex B – High National Committee report on corrective measures

Available from <http://eiti.org/internal/validation-committee>

Annex C –Terms of Reference for the Secretariat Review for Chad

Available from <http://eiti.org/internal/validation-committee>

Annex D–Revenue Flows and Revenue Management Framework



Source: World Bank Chad-Cameroon Pipeline Project http://web.worldbank.org/archive/website01210/WEB/0_CO-23.HTM