

For decision

For discussion

For information

São Tomé and Príncipe Validation

Summary

The Validation Committee recommends that the EITI Board agrees that São Tomé and Príncipe has made meaningful progress in implementing the 2016 EITI Standard. In accordance with requirement 8.3c, São Tomé and Príncipe will be considered an EITI candidate and requested to undertake corrective actions until the second Validation on <date of Board decision + 12 months>.

SÃO TOMÉ AND PRÍNCIPE VALIDATION

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Supporting documentation

[Validation Report](#)

[Comments on the Validation Report by the National Secretariat](#)

[Initial assessment by the International Secretariat](#)

[Comments on the Initial Assessment by the National Secretariat](#)

Has the EITI competence for any proposed actions been considered?

The Articles of Association mandate the Board to classify implementing countries as candidate countries or compliant countries (Article 5(2)(i)(a)). The EITI Standard ([Requirement 8.3](#)) addresses [EITI Validation deadlines and the consequences](#) following Validation.

Financial implications of any actions

The recommendation implies a second Validation commencing in early 2018. The cost of second Validations varies depending on the size of the country and the extractive industries and the scope of the corrective actions. In this case, a second Validation is expected to cost circa 25 000 USD, including staff time, travel and the cost of engaging the Independent Validator.

Document history

Comparison table and supporting documentation reviewed by the Validation Committee	15 February 2017
Validation Committee agreement on a Board Paper	21 February 2017
Submitted to the Board	22 February 2017

Recommendation

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

The Board agrees that São Tomé and Príncipe has made meaningful progress overall in implementing the 2016 EITI Standard. The Board's determination of São Tomé and Príncipe's progress with the EITI's requirements is outlined in the assessment card, below.

The EITI Board agreed that São Tomé and Príncipe had not made satisfactory progress on requirements 1.4, 1.5, 2.2, 2.3, 3.1, 4.6 4.9, 6.1, 7.3 and 7.4. The major areas of concern relate to MSG governance (#1.4), work plan (#1.5), license allocation (#2.2), license register (#2.3)), exploration data (#3.1), direct sub-national payments (#4.6), data quality (#4.9), mandatory social expenditures (#6.1.a), follow-up on recommendations (#7.3), outcomes and impact (#7.4).

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

The Board's decision followed a Validation that commenced on 1 July 2016. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed an Independent Validator, who submitted a Validation Report to the EITI Board. The São Tomé and Príncipe Extractive Industries National Stakeholder Group was invited to comment on the findings throughout the process. The national secretariat's comments on the report were taken into consideration. The final decision was taken by the EITI Board.

Background

São Tomé and Príncipe (STP) became an EITI candidate in 2008, with the broad objectives of enabling transparency in the oil sector and creating a friendly business environment. The São Tomé and Príncipe Extractive Industries National Stakeholder Group was formed to serve as the multi-stakeholder group (MSG). STP was delisted in 2010 after its request for voluntary suspension was rejected by the EITI Board due to the lack of reporting on activities in the JDA. The country's candidacy was reinstated upon its re-application in 2012, after which it produced in 2014 its first EITI Report covering 2003–2013, followed in 2015 by its most recent report covering 2014. The EITI Board also approved in 2015 STP's adapted implementation request—applicable to STP's 2015 and 2016 EITI Reports—to address reporting challenges with respect to the Joint Development Zone (JDZ) managed with Nigeria.

The Validation process commenced on 1 July 2016. In accordance with the Validation procedures, an [initial assessment](#) was prepared by the International Secretariat. The MSG were invited to comment. [Comments](#) were received from the MSG. The assessment was then reviewed by the Independent Validator, who prepared the [Validation Report](#). The MSG were invited to comment on the Report. No comments were received to the Validation Report.

The Validation Committee reviewed the case on 15 February 2017. Based on the findings above, the Validation Committee agreed to recommend the assessment card and corrective actions outlined below. As per Requirement 8.3.c. this includes a requirement that the MSG agrees and discloses a time-bound action plans for addressing weaknesses in data reliability within 3 months.

The Committee also agreed to recommend an overall assessment of “meaningful progress” in implementing the 2016 EITI Standard. Requirement 8.3. of the EITI Standard states that:

- a(ii). Overall assessments. Pursuant to the Validation Process, the EITI Board will make an assessment of overall compliance with all requirements in the EITI Standard.
- ...
- c(iv). **Meaningful progress.** The country will be considered an EITI candidate and requested to undertake

corrective actions until the second Validation.

The Validation Committee agreed to recommend a period of 12 months to undertake the corrective actions. This recommendation takes into account that the extractive sector is small, and seeks to align the Validation deadline with the deadline for the next (2015) EITI Report.

Assessment card

The Validation Committee recommends the following assessment:

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

	Economic contribution (#6.3)																																							
Outcomes and impact	Public debate (#7.1)																																							
	Data accessibility (#7.2)																																							
	Follow up on recommendations (#7.3)																																							
	Outcomes and impact of implementation (#7.4)																																							
Overall assessment	Meaningful progress																																							

Legend to the assessment card

No progress. All or nearly all aspects of the requirement remain outstanding and the broader objective of the requirement is not fulfilled.

Inadequate progress. Significant aspects of the requirement have not been implemented and the broader objective of the requirement is far from fulfilled.

Meaningful progress. Significant aspects of the requirement have been implemented and the broader objective of the requirement is being fulfilled.

Satisfactory progress. All aspects of the requirement have been implemented and the broader objective of the requirement has been fulfilled.

Beyond. The country has gone beyond the requirements.

This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.

The MSG has demonstrated that this requirement is not applicable in the country.

Corrective Actions

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

1. In accordance with Requirement 1.4.a, the government should ensure that all constituencies are adequately represented in the MSG. Requirement 1.4.b.i further requires that members of the MSG have the capacity to carry out their duties. MSG members should ensure that they are able to perform their duties in accordance with their own Terms of Reference. In accordance with Requirement 1.4b.vi, the MSG should agree and publish its procedures for nominating and changing representatives. This should include ensuring that there is a process for changing group members that respects the principles set out in Requirement 1.4.a.
2. In accordance with Requirement 1.5, the MSG is required to maintain a current work plan, fully costed and aligned with the reporting and Validation deadlines established by the EITI Board. The work plan must set implementation objectives that are linked to the EITI principles and reflect national priorities for the extractive industries (Requirement 1.5a) and assess and outline plans to address any potential capacity constraints in government agencies, companies and civil society that may be an obstacle to effective EITI implementation (Requirement 1.5.c.i). It should also address the scope of EITI Reporting, including plans for addressing technical aspects of reporting such as comprehensiveness and data reliability (1.5.c.ii). It is also required that the work plan identify and

outline plans to address any potential legal or regulatory obstacles to EITI implementation, including any plans to incorporate the EITI Requirements within national legislation or regulation. (Requirement 1.5.c.iii). Lastly, it should outline the SIESNG's plans for implementing the recommendations from Validation and EITI Reporting (Requirement 1.5.c.iv).

3. In accordance with Requirement 2.2, São Tomé and Príncipe is required to disclose the (i) the technical and financial criteria used in awarding licenses, (ii) information about the recipient(s) of the license that has been transferred or awarded, including consortium members where applicable, and (iii) any non-trivial deviations from the applicable legal and regulatory framework governing license transfers and awards related to the award or transfer of licenses pertaining to the companies covered in the EITI Report during the accounting period covered by the EITI Report.
4. In accordance with Requirement 2.3.b, São Tomé and Príncipe is required to maintain a publically available register or cadastre system(s) with the following timely and comprehensive information regarding each of the licenses pertaining to companies covered in the EITI Report: (i) license holder(s), (ii) where collated, coordinates of the license area, (iii) date of application, date of award and duration of the license, (iv) in the case of production licenses, the commodity being produced. Any significant legal or practical barriers preventing such comprehensive disclosure should be documented and explained in the EITI Report, including an account of government plans for seeking to overcome such barriers and the anticipated timescale for achieving them.
5. In accordance with Requirement 3.1, the EITI Report must provide an overview of the extractive industries, including any significant exploration activities.
6. In accordance with Requirement 4.6, the MSG should establish whether direct payments, within the scope of the agreed benefit streams, from companies to subnational government entities are material. Where material, the MSG is required to ensure that company payments to subnational government entities and the receipt of these payments are disclosed and reconciled in the EITI Report.
7. In accordance with Requirement 4.9.a, the EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. The MSG should comply with the following:
 - a. Payments and revenues should be reconciled by a credible, independent administrator, applying international auditing standards, and with publication of the administrator's opinion regarding the reconciliation including discrepancies, should any be identified (#4.9b)
 - b. The reconciliation of company payments and government revenues must be undertaken by an Independent Administrator applying international professional standards (#4.9.b.i)
8. In accordance with Requirement 6.1.a, São Tomé and Príncipe must disclose and, where possible, reconcile social expenditures. Where such benefits are provided in-kind, it is required that São Tomé and Príncipe disclose the nature and the deemed value of the in kind transaction. Where the beneficiary of the mandated social expenditure is a third party, i.e. not a government agency, it is required that the name and function of the beneficiary be disclosed. Where reconciliation is not feasible, the MSG should provide unilateral company and/or government disclosures of these transactions.
9. In accordance with Requirement 7.3, the MSG is required to take steps to act upon lessons learnt; to identify, investigate and address the causes of any discrepancies; and to consider the

recommendations resulting from EITI reporting.

10. In accordance with Requirement 7.4, the annual activity reports (APR) should be made publically available, and include an overview of their responses to and progress made in addressing the recommendations from reconciliation and Validation in accordance with Requirement 7.3.i. Where the government or MSG has decided not to implement a recommendation, it is required that the MSG documents the rationale in the annual progress report. The APR should also include an assessment of progress with achieving the objectives set out in its work plan, including the impact and outcomes of the stated objectives (Requirement 7.4.a.iv).

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