

Extractive Industries Transparency Initiative (EITI)

Validation of São Tomé and Príncipe

Draft assessment by the EITI International Secretariat

30 May 2018

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1. Summary

São Tomé and Príncipe (STP)'s second Validation commenced on 8 March 2018. The EITI International Secretariat has assessed the progress made in addressing the ten corrective actions established by the EITI Board following STP's first Validation in 2016¹. The nine corrective actions relate to:

1. Oversight by the multi-stakeholder group (Requirement 1.4)
2. EITI work plan (Requirement 1.5)
3. The disclosure of license allocation (Requirement 2.2)
4. Register of licenses (Requirement 2.3)
5. Exploration data (Requirement 3.1)
6. Data quality and assurance (Requirement 4.9)
7. Social expenditures by extractive companies (Requirement 6.1)
8. Follow-up on EITI Report recommendations (Requirement 7.3)
9. The review the outcomes and impact of EITI implementation (Requirement 7.4)

The Secretariat's assessment is that São Tomé and Príncipe has addressed six of the corrective actions and has made "meaningful progress" with improvements on the corresponding requirements. The draft assessment was sent to the Multi-Stakeholder Group (MSG) on 1 June 2018. Following comments from the MSG, the assessment will be finalised for consideration by the EITI Board.

2. Background

São Tomé and Príncipe (STP) was first admitted as an EITI country in 2008. The candidature ended in 2010 when the Board rejected a request for voluntary suspension and delisted STP. The main impediment was the inability to cooperate with Nigeria on reporting on activities in the Joint Development Zone (JDZ). At

¹ <https://eiti.org/validation/stp/2016>

the time, oil exploration was only taking place in the JDZ. STP reapplied for candidature in 2012, committing to strengthening collaboration with Nigeria. By then, exploration had begun in the Exclusive Economic Zone (EEZ). STP has published three EITI Reports, one for 2003-2013, 2014 and 2015. The reports cover both the JDZ and the EEZ. The first Validation of STP against the EITI Standard commenced on 1 July 2016. On 8 March 2017, the EITI Board found that STP had made meaningful progress in implementing the 2016 EITI Standard. Nine corrective actions were identified by the Board, pertaining to the following requirements: MSG governance (#1.4), work plan (#1.5), license allocation (#2.2), license register (#2.3), exploration data (#3.1), data quality (#4.9), mandatory social expenditures (#6.1), follow-up on recommendations (#7.3), outcomes and impact (#7.4). The Board asked STP to address these corrective actions to be assessed in a second Validation commencing on 8 March 2018.

STP has undertaken a number of activities to address the corrective actions:

- At its 27 January 2017 meeting, the MSG appointed PwC (Portugal) as the Independent Administrator for the 2015 EITI Report.
- On 16 March 2017, the MSG agreed the scope of the 2015 EITI Report with the Independent Administrator.
- On 28 September 2017, the MSG approved the 2016 Annual Progress Report, in light of the corrective actions related to Requirement 7.4.
- On 5 October 2017, the MSG agreed revised Terms of Reference (ToR) and work plan for 2017-2018 in light of corrective actions related to Requirement 1.4 and 1.5.
- On 22 December 2017, the 2015 EITI Report approved by the MSG was published.
- On 2 April 2018, the government invited EITI stakeholders to re-select their representatives on the MSG, in accordance with the approved ToR for the MSG.

The following section addresses progress on each of the corrective actions. The assessment is limited to the corrective actions established by the Board and the associated requirements in the EITI Standard. The assessment follows the guidance outlined in the Validation Guide². In the course of undertaking this assessment, the International Secretariat has also considered whether there is a need to review additional requirements, i.e. those assessed as “satisfactory progress” or “beyond” in the 2016 Validation. While these requirements have not been comprehensively assessed, in the Secretariat’s view there is no evidence to suggest progress has fallen below the required standard and no additional issues that warrant consideration by the EITI Board.

3. Review of corrective actions

The Secretariat’s assessment below discusses whether the corrective actions have been sufficiently addressed. The assessments are based on minutes of the MSG meetings from January 2017 to March 2018, the 2015 EITI Report, the 2016 Annual Progress Report and the 2017-2018 work plan, various documents submitted by the MSG to the secretariat, e-mail correspondences, and stakeholder consultations (by email, phone and via skype).

3.1 Corrective action 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

² https://eiti.org/sites/default/files/documents/validation-guide_0.pdf

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.

Findings from the first Validation

The first Validation concluded that STP had made meaningful progress in meeting this requirement. The documentation and stakeholder consultations demonstrated that stakeholders were generally satisfied with the structure and functioning of the MSG. The main gaps identified related to the inadequacy of the ToR for the MSG, in particular the need for clear procedures for nominating and changing MSG members, and the need to improve record-keeping of its decisions. The Validation took note of the ongoing efforts to revise the ToR for the MSG, noting that the new ToR could help address the gaps identified.

Progress since Validation

The MSG and the National Secretariat have taken several steps to address the issues highlighted during the first Validation. On the 5 October 2017, the MSG approved its revised ToR.³ The ToR's introduction notes that the objectives of the new ToR were to provide new impetus to the functioning of STP EITI and to improve the effectiveness of the process. In addition, the ToR simplify the procedures and coordination mechanisms between the stakeholders engaged in the process. The revised ToR also change the composition of the MSG, providing for wider government representation, including from regional and provincial governments, the national assembly and independent media.

The revised ToR provide more details on the roles and responsibilities of the MSG, including the requirement to attend meetings and engage in MSG discussions and decisions. To address the capacity constraints noted in the first Validation, the ToR provide that representation by government institutions should be undertaken by officials or persons in positions and with qualifications matching the objectives and decisions to be taken by the MSG.

The revisions to the ToR have refined the internal governance rules and procedures in accordance with Requirement 1.4.b.vi. According to the ToR, the organisations/institutions represented on the MSG have the responsibility to nominate or re-appoint MSG members as needed. The ToR further notes that each institution/constituency should select their representatives and agree the criteria for selection internally. Each institution/organisation is required to notify the MSG Chair of any change in membership. In accordance with Requirement 1.4.b.i-vii, the ToR define the MSG's roles and responsibilities, including responsibility for approving work plans, EITI Reports and annual progress reports, and set the internal governance rules and procedures.

In April 2018, STP EITI initiated the first renewal of its MSG membership since STP became an EITI implementing country in 2012. Invitations were sent out on behalf of the Ministry of Finance, Trade and Blue Economy to key government agencies including ANP, the Records and Public Information Office (GRIP), Treasury, the Central Bank of STP, Ministry of Science, Education and Communication, the National Assembly, the Regional Government of Príncipe, the Association of District Councils. Other stakeholders invited included the civil society coalition Federation of Non-Governmental Organisations (Federação de Organizações Não Governamentais), the Association of Santomean Journalists, the main

³ STP EITI, Terms of Reference for the MSG, published on the EITI website and accessed [here](#) in May 2018

petroleum operators (Kosmos, Galp, Sonangol, Oranto, Equator), and other industry associations such as the Chamber of Commerce, Industry, Agriculture and Services, and Business Association of São Tomé e Príncipe. While the MSG renewal process was ongoing at the start of STP's second Validation, new industry representatives have indicated interest in joining the MSG according to a government representative. This was considered to be a welcome sign as there are few active industry representatives in São Tomé and Príncipe, a challenge that was raised by stakeholders during the first Validation.

While constituency nomination procedures have yet to be publicly codified, there is evidence to suggest that the process for selecting industry and CSO representatives was open and transparent. For industry representation, all petroleum companies with active operations in STP received an invitation to participate. For civil society, first last nomination process ahead of STP's EITI candidature in 2012 was administered by the umbrella organisation FONG, which has also been represented on the MSG, and included a public call to participate.

Secretariat's Assessment

The Secretariat is satisfied that the corrective action on multi-stakeholder oversight has been addressed, and considers that STP has achieved satisfactory progress on requirement 1.4. The MSG approved a revised ToR in October 2017, defining the MSG's roles and responsibilities, including responsibility for approving work plans, EITI Reports and annual progress reports, and the internal governance rules and procedures in accordance with Requirement 1.4.b. The MSG has initiated the first renewal of its membership since 2012, ensuring that all constituencies are adequately represented and have the capacity to fulfil their duties. The MSG has codified the need for each constituency to agree its own internal nominations procedures for selecting MSG representatives. While renewal of membership is ongoing, there is every indication the process is being undertaken in an open way according to procedures defined by each constituency, even if these procedures have yet to be publicly codified.

3.2 Corrective action 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 MSG's plans for implementing the recommendations from Validation and EITI Reporting (Requirement 1.5.c.iv).

Findings from the first Validation

The first Validation concluded that STP had made meaningful progress towards meeting this requirement. It was noted that the work plan had not been made publicly available and that there had been delays in agreeing the work plans covering previous years. While there were documented efforts to make clearer links between the work plan objectives and the government's priorities for the extractive sector, Validation found that the links between work plan objectives and the planned activities could have been

stronger. The MSG was encouraged to consult with wider stakeholders in agreeing the scope of objectives and activities in the work plan.

Progress since Validation

The MSG approved the 2017- 2018 EITI work plan on 5 October 2017. This work plan was made public and can be accessed on the STP-EITI website⁴. In accordance with Requirement 1.5, some of the workplan objectives are in line with national priorities for the sector. For instance, objectives relating to management of expectations within the petroleum sector, improving governance and accountability of the JDZ and trust building between stakeholders by meeting international standards. On the other hand, some of the objectives are EITI specific and could have been made more relevant to the STP situation. Objectives related to ensuring the sustainability of EITI in STP, through the mainstreaming of EITI disclosures for instance, will be of increasing importance in future work plans.

The current work plan addresses the scope and technical aspects under Requirement 1.5c. ii. Other than the activity of developing and approving EITI reporting templates, the workplan includes activities together with Nigeria EITI and the JDA related to developing joint reporting templates for data collection from government and companies in the JDZ.

The main legal obstacle for EITI implementation in STP relates to requiring disclosures by the JDA. The work plan includes activities directed to operationalizing a Nigeria-STP EITI sub-committee to help address the challenges related to disclosures on activities in the JDZ. There are no activities in the work plan related to addressing potential obstacles to disclosure of beneficial ownership information however.

Some of the recommendations from the first Validation, related to MSG oversight and social expenditures, have been reflected in the current work plan. The first objective in the work plan is specifically aimed at implementing corrective actions resulting from EITI Validation related to improving MSG governance. The second objective is also a direct outcome of recommendations from all STP EITI Reports related to the need for improved monitoring of social projects.

Secretariat's Assessment

The Secretariat is satisfied that the corrective action on work plan has been addressed, and considers that STP has achieved satisfactory progress on requirement 1.5. In accordance with requirement 1.5, the MSG approved an updated fully-costed work plan in October 2017, whose objectives were in line with national priorities and outlines plans for addressing capacity constraints that could form obstacles to EITI implementation. The work plan addresses the scope of EITI reporting, includes plans to address legal and regulatory obstacles to implementation, and outlines the MSG's plans for following up on recommendations from EITI reporting and Validation.

3.3 Corrective action 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.

Findings from the first Validation

⁴ STP EITI work plan 2017-2018, accessed [here](#) in May 2018

The first Validation concluded that STP had made meaningful progress with regards to this provision. For the 2014 EITI Report, the coverage of the award of licenses in the EEZ was considered to be adequate, although there was limited information about the process for transferring licenses. It was found that the website of the petroleum agency (Agencia Nacional de Petroleo, ANP) provided detailed documentation on the license bidding round and awarding of blocks.⁵ The disclosure gaps related to license allocations were considered to be material for the JDZ. Although there were no licenses awarded in 2014, the lack of information on license allocations in previous years was considered to be problematic. The first Validation also highlighted that the legal or practical barriers preventing comprehensive disclosure on license allocations were linked to the fact that the Government of STP could not compel the JDA to participate in the reporting process with regards to information on license allocations in the JDZ. By approving the request for adapted implementation by STP in late 2015, the EITI International Board acknowledged the exceptional circumstances related to reporting on the JDZ and approved the request with respect to reconciliation of revenues and disclosure of contextual information from the zone. The request was granted in relation to the 2015 and 2016 EITI Reports, but the Board agreed that it would not apply to the assessment of the 2014 EITI Report for the purpose of the first Validation.

Progress since Validation

In accordance with the corrective action related to Requirement 2.2, the 2015 EITI Report provides detailed information on the process for awarding licenses, including the technical and financial criteria assessed. The report also provides a link to investor guidelines that offers comprehensive information on the bidding process. ANP has since released updated guidelines and further documentation as part of the 2017 restricted bidding round.⁶ The report also includes information about the recipients of the licenses that were awarded and transferred. The report does not include a description of the process for transferring licenses, although this is described in the petroleum regulations and the model PSC available from ANP's website.⁷ The criteria for approving transfers of participating interests are not clear, as the regulations only state that approval is subject to conditions as ANP-STP or the Government considers necessary and is contingent on ensuring that the obligations under the PSC will be fulfilled.⁸

Table 10.1 in the 2015 EITI Report (p. 31) provides an overview of active oil and gas blocks, the names of license-holding companies, and a description of the process for awarding each license. The report explains that in 2015, ANP signed a Production Sharing Contract with Galp Energia for Block 6 through restricted bidding. While the report refers to the license's allocation through restricted bidding, it does not provide details of the procedure followed for awarding this license. However, the process for awarding Block 6 is explained in detail on the ANP website⁹, with reference to the Petroleum Operations Law (Law 16/2009).¹⁰ The ANP website provides an overview of the various licensing activities between 2010-2017,¹¹ referring to the specific legal documents outlining the licensing procedures. The 2015 EITI Report

⁵ Agência Nacional do Petróleo, *São Tomé e Príncipe Exclusive Economic Zone (EEZ)*, accessed [here](#) in May 2018.

⁶ ANP, *São Tomé and Príncipe 1st licensing round – Guidelines for investors*, accessed [here](#) in May 2018

⁷ ANP, *Legal and Fiscal Documents*, accessed [here](#) in May 2018

⁸ ANP, *Model PSC*, accessed [here](#) in May 2018

⁹ ANP, *Allocation of rights*, accessed [here](#) in May 2018

¹⁰ ANP, *Laws*, accessed [here](#) in May 2018. The website includes links to PDF documents of the legislation and regulations that apply to petroleum activities.

¹¹ ANP, *EZZ (overview)*, accessed [here](#) in May 2018.

does not refer to the technical and financial criteria for restricted bidding, although these are outlined in the guidelines for restricted bidding available from the ANP website.¹²

Regarding transfers of licenses (or interests in a license) in 2015, the 2015 EITI Report further explains that the ANP subsequently authorised a farm-out 50% of the Block 6 contract to Kosmos Energy. The report also confirms that ANP authorized the transfer of 100% of EHRC's participating interest in Block 11 to Kosmos Energy (p. 30).¹³

The report does not highlight the existence of non-trivial deviations from statutory procedures for license awards and transfers in the year under review. The ANP website provides an overview of the legal provisions applied for each of the contract awards, including the year under review.¹⁴ For transfers, the website does not refer to the provisions followed or criteria applied, although it states that the transfers were approved by ANP. Based on consultations by the Secretariat with ANP, the ANP confirmed that the process for awarding Block 6 in 2015 followed the requirements for direct negotiation set out in Article 21 (1.a and 2) of the Petroleum Operations Law. Given that Article 21 (3) was met, a restricted bidding process took place for awarding the Block 6 to Galp Energy. The ANP confirmed that there were no deviations from the statutory procedures in awarding petroleum rights.

For the JDZ, which is not covered in this assessment given STP's adapted implementation, the same legal problems identified in the first Validation persisted for the 2015 reporting cycle. The 2015 EITI Report however lists all operating entities in JDZ and describes a new production sharing contract that was signed in 2015 for Block 1 by Equator Hydrocarbon and Papis Energy Solution. There is no further information on the process for awarding licenses or contracts in the JDZ, such as the statutory procedures or technical and financial criteria. The report recommends that the Joint Ministerial Council for the Nigeria-STP Joint Development Zone meet to ensure that the provisions of the Joint Declaration of Abuja on Transparency and Good Governance be implemented, including in the provision of information on licensing in the zone.

Secretariat's Assessment

The Secretariat is satisfied that the corrective action on transparency in license allocation and transfer practices has been partly addressed, and considers that STP has achieved meaningful progress against Requirement 2.2, with considerable improvements. The EITI Report provides a description of the process for transferring or awarding the license, including information about the recipients of licenses transferred and awarded, including consortium members where applicable. The government has also disclosed comprehensive information on the technical and financial criteria used in license awards, but not transfers. The report does not mention non-trivial deviations from the applicable legal and regulatory framework governing license transfers, although the petroleum regulator confirmed during stakeholder consultations that there were no such deviations in the one PSC awarded in the reporting year.

In accordance with Requirement 2.2.i and iii, São Tomé and Príncipe is required to disclose the technical and financial criteria used in awarding licenses and 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.

¹² ANP, *São Tomé and Príncipe EZZ restricted bidding – Guidelines*, accessed [here](#) in May 2018

¹³ São Tomé EITI 2015 Report (p. 30), accessed [here](#) in May 2018

¹⁴ ANP, *Activities in the EZZ*, accessed [here](#) in May 2018

3.4 Corrective action 4

In accordance with Requirement 2.3.b, São Tomé and Príncipe is required to maintain a publicly 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.

Findings from the first Validation

The first Validation concluded that STP had made meaningful progress with regards to Requirement 2.3. The data in the 2014 EITI Report on licenses in the EEZ included all information in accordance with requirement 2.3 apart from the date of application. The 2014 EITI Report provided information about the area, initial consortium members, consortium members as of December 2013, actual consortium members as of June 2015, the operator name and the end dates of all contracts for JDZ blocks. The date of application, date of award and coordinates were not included. No companies operating in the JDZ were included as material companies in the 2014 EITI Report. The first Validation considered that license information from the JDZ was not comprehensive in the period covering 2003–2013.

Progress since Validation

The 2015 EITI Report provides license-holder names, type of authorisation, allocation process, signature date, effective date and the duration of the agreement for all oil and gas blocks in the EEZ. Name and area of the blocks and sizes are also provided. An image/map of the location of the blocks and their respective coordinates has been provided. The ANP has also published a register of all active oil and gas licenses in STP.¹⁵ This includes information on the license area, initial and current holders of the license, production/exploration phase, type of license/contract, the process of award, date of signature and duration.

However, neither the 2015 EITI Report nor the license register provide dates of application for all active oil and gas blocks. For contracts awarded through bidding, such as the restricted bidding round in 2014 resulting in award of Block 6 to Gap in 2015, the ANP website provides information on the deadline of submission for bids, which can be equated with the dates of application for blocks awarded through the bidding round. For example, for the 2014 restricted bidding round that resulted in the award of Block 6 to Galp in 2015, ANP published a press release listing the companies that had submitted bids by the deadline of 30 January 2014.¹⁶

The active contracts/licenses of licenses held by material companies in 2015 were:

- Block 2 (Sinoangol) was awarded through direct negotiation in 2013 (dates of application not traceable)
- Block 3 (Oranto) was awarded through 2010 bidding round (deadline of submission for bids can be equated with date of application)

¹⁵ ANP, overview of petroleum rights, accessed [here](#) in May 2018. As of May 2018, the register appeared to have been updated in January 2018

¹⁶ ANP (31 January 2014), Results of request for expression of interest in blocs 1 and 6, accessed [here](#) in May 2018

- Block 5 was awarded through acquisition of preference rights in 2010 (dates of application not traceable)
- Block 6 was awarded through 2014 bidding rounds (deadline of submission for bids can be equated with date of application)
- Block 11 was awarded through acquisition of preference rights in 2010 (dates of application not traceable)

With regard to the JDZ, the report provides details of the names of the block, area, initial license-holding consortium, current license-holding consortium, operator and contract date. However, the coordinates of the license areas and dates of application have not been collated. Legal and administrative barriers, as previously indicated, have been cited as the reason preventing comprehensive disclosure in the report. The report recommends that JDA complies with the Joint Declaration of Abuja on Transparency and Good Governance from 2004 (in particular Article 5 relating to contracts/licenses), and notes that the Joint Ministerial Council which governs the JDZ should be convened to this end (p. 96).

Secretariat's Assessment

The Secretariat is satisfied that the corrective action on license register has been partly addressed and considers that STP has made meaningful progress against Requirement 2.3, with considerable improvements. Dates of application are not publicly-available for contracts and licenses held by companies within the scope of reporting.

In accordance with Requirement 2.3.b, São Tomé and Príncipe is required to maintain a publicly available register or cadastre system which includes the timely and comprehensive information on the date of application for each of the licenses pertaining to companies covered in the EITI Report. 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.

3.5 Corrective action 5

In accordance with Requirement 3.1, the EITI Report must provide an overview of the extractive industries, including any significant exploration activities.

Findings from the first Validation

The first Validation concluded that STP had made meaningful progress with regards to Requirement 3.1. While the 2014 EITI Report provided a comprehensive overview of exploration activities in the EEZ, the overview of exploration in the JDZ was brief, with clear gaps in information provided by the JDA. This was also the case for the 2003-2013 EITI Report. Validation considered that, given that adapted implementation covered only the 2015 and 2016 EITI Reports, full disclosure with respect to exploration activities in the JDZ for the prior years should have been provided.

Progress since Validation

The 2015 EITI Report provides an overview of the extractive industries covering the historical background, role of relevant institutions, legal framework, activities, prospection and exploration activities for both the EEZ and the JDZ. However, for the 2015 EITI Report, full disclosure with respect to exploration activities in the JDZ was not required given the Board's approval of adapted implementation for the 2015 and 2016 EITI Reports.

Secretariat's Assessment

The Secretariat is satisfied that the corrective action the overview of the extractive industries has been addressed, and considers that STP has made satisfactory progress against requirement 3.1. The 2015 EITI Report provides an overview of the extractive industries in STP, including significant exploration activities in the EEZ. Gaps in coverage of activities in the JDZ are not assessed in terms of compliance with Requirement 3.1, given the Board's prior approval of adapted implementation for the 2015 and 2016 EITI Reports.

3.6 Corrective action 6

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)

Findings from the first Validation

The first Validation concluded that STP had made meaningful progress in meeting this requirement. The 2014 EITI Report was deemed to be of high quality by EITI stakeholders consulted during Validation. However, the report did not include a clear indication of whether all companies and government entities within the agreed scope of the EITI reporting process had provided the requested information. There was no discussion in the 2014 EITI Report of any gaps or weaknesses in reporting, including naming any entities that failed to comply with the agreed procedures and assessing the materiality of payments from non-reporting entities.

Progress since Validation

The 2015 EITI Report explains that all reporting entities provided the requested quality assurances for their EITI reporting, with the exception of Sinoangol. The data assurances requested from reporting entities are described (p.90), and the report provides an overview of the level of compliance with the agreed quality assurances by each of the reporting entities (p.91). Additionally, the report lists the companies that had their financial statements for the reporting year audited, the identity of their auditors and the audit standards adopted (Table 23, p.57). The report also highlights the companies whose audited financial statements for the reporting year are publicly available and notes that financial statements are available from each company's website (p.57).

For government entities, the report explains that all reporting templates by government entities were "signed by competent staff with a significant level of seniority" (p.21).

In addition, the report includes a summary of the review of audit and assurance procedures of companies and government entities in the scope of reporting. The IA highlights that the NPA has the mandate to inspect and audit all accounting records of oil companies, but that the NPA has never performed this task (p.21). The IA summarises the findings of its review of audit practices (p.90), including an overview of audit requirements for companies and key gaps in practice. The report explains that, for government agencies, there was no evidence of an audit of revenues collected by the National Petroleum Agency and the Treasury Directorate in the year under review (p.91). The methodology for the reconciliation and

agreed-upon procedures followed by the IA to ensure that the information is reliable are described (pp.62-65). The report further states that the “Independent Administrator is not responsible for confirming the accuracy of the reported values and the legal and contractual obligations of the extractive industry companies, Government and Governmental Agencies”, and that “accordingly, [they] do not express any opinion on the payments/receipts disclosed” (p.5). However, the IA should have nonetheless commented on whether the reconciled financial data in the 2015 EITI Report was comprehensive and reliable, in line with provisions of the IA’s ToR. Yet there is no evidence in the report that the IA had assessed the materiality of payments from the non-reporting company Sinoangol, or its impact on the comprehensiveness of the EITI Report.

The contextual information is clearly sourced for each chapter and throughout the report. The final section on “Improvement Opportunities” highlights progress against each previous recommendation and comments on outstanding recommendations. Section 7.9 on “reliability of information” provides recommendations for strengthening the government’s auditing procedures, while taking the context of the nascent petroleum sector into account, and for introducing requirements for companies to submit to government audited financial statements annually (p.98).

Secretariat’s Assessment

The Secretariat is satisfied that the corrective action on data reliability has been partly addressed, and considers that STP has made meaningful progress against requirement 4.9. The 2015 EITI Report provides an overview of audit practices by material entities in the period under review, a description of the quality assurances agreed for EITI reporting, and an assessment of omissions by reporting entities, including the materiality of non-complying reporting entities’ payments to government. The report includes an overview of follow-up on past recommendations and a set of new recommendations based on the 2015 reporting cycle. The report does however not include a clear statement from the IA on the comprehensiveness and reliability of reconciled financial data. All non-financial information appears clearly sourced.

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 ensure that future EITI reporting includes a clear statement from the IA on the comprehensiveness and reliability of reconciled financial data.

3.8 Corrective action 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.

Findings from the first Validation

The first Validation concluded that STP had made meaningful progress in meeting this requirement. It was found that the 2014 EITI Report explained that companies operating in EEZ had contractual obligations to support social projects monitored by ANP, alongside mandatory contributions to training scholarships for government staff. Disclosures of mandatory social expenditures were included in the report, with the nature and value disclosed for in-kind payments. Payments for training to NPA and the government were also disclosed, albeit with limited information on the allocation of these funds. This was highlighted as a

gap in the 2014 EITI Report and recommendations were provided. However, Validation highlighted that the 2014 EITI Report did not disclose the names and functions of non-government beneficiaries of mandatory social expenditures.

Progress since Validation

The 2015 EITI Report provides detailed information on mandatory social expenditures by petroleum companies. The report states that there were no voluntary contributions reported (p.20). The report estimates the amounts of social expenditures due by companies in the EEZ as well as actual amounts disbursed in 2015 (Tables 38 and 39, p.84). The data is disclosed by company for each year in the 2012-2015 period. The report also calculates the amounts that were due to be paid for social projects according to the PSCs, and the balance due to be disbursed for social projects for the period 2012-2016. The value, nature and beneficiaries of social expenditures in 2015 are described in a graph (pp.84,86). The report refers to social projects executed in 2016, mentioning the beneficiaries and the nature of the project (pp. 84-85).

The report also discloses each reporting company's payments made for training grants for ANP staff and internal scholarships at the Ministry of Education for each year in the 2012-2015 period (p. 87). The report also comments on the management of these grants by each of the two government entities as of the end of 2015, including the number of students that have had access to scholarships (pp.87-88). The JDA confirmed that there had been no social expenditures related to activities in the JDZ, not least given the lack of such activities (p.83).

The report further highlights that to improve monitoring of social projects, Kosmos and ANP had established an ad hoc commission to monitor social projects executed as part of Kosmos' PSC (p.95). A representative from ANP expressed optimism about other companies following the example to contribute to the monitoring and execution of social projects.

Secretariat's Assessment

The Secretariat is satisfied that the corrective action on transparency in social expenditure has been addressed, and considers that STP has made satisfactory progress with requirement 6.1. The 2015 EITI Report clearly distinguishes between mandatory and voluntary social expenditures and discloses comprehensive information on the mandatory social contributions by companies in accordance to the PSCs, disclosures of mandatory social expenditures by companies disaggregated by project, beneficiary and between cash and in-kind expenditures. The information is based on information from the PSCs, the companies' unilateral disclosures and confirmation of disbursements by the ANP.

3.9 Corrective action 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.

Findings from the first Validation

The first Validation concluded that STP had made meaningful progress towards meeting this requirement. While Validation highlighted that STP had made some effort to address recommendations from its EITI Reports, such as including activities related to follow-up on recommendations in the annual work plan, it was found that a more concerted effort was needed to document and follow up on recommendations from EITI reporting. Validation recommended that STP-EITI's work plan should better reflect

recommendations from previous reports and specific activities to respond and ensure their implementation.

Progress since Validation

The 2016 Annual Progress Report provides an overview of the responses by the MSG to the total of ten recommendations from its EITI Reports and progress in follow-up (pp. 13-16). The list of recommendations also includes four recommendations from the pilot Validation in 2015. Three of the ten recommendations in STP's EITI Reports have not been implemented by the MSG for different reasons detailed in the annual progress report, primarily related to lack of capacity or their being assigned lower priority. There appears to have been progress relating to monitoring of social projects, for which a committee has been established by ANP and Kosmos.

The STP EITI work plan for 2017-18¹⁷ includes objectives and activities that indicate that the MSG is taking steps to act upon lessons learnt from EITI reporting. The first work plan objective, to improve monitoring of social projects and benefits for communities is a direct outcome of recommendations from all STP EITI Reports published to date, related to the need for improved monitoring of social expenditures. The work plan also includes an objective to improve transparency in the JDZ, which also reflects a recurring recommendation from the EITI Reports to date.

Secretariat's Assessment

The Secretariat is satisfied that the corrective action on follow up of lessons learnt by MSG has been completed and considers that STP has made satisfactory progress in meeting Requirement 7.3. The 2016 annual progress report and 2015 EITI Report detail the MSG's follow-up on recommendations of STP's EITI Reports and Validation. There is evidence that the MSG has actively followed up on past recommendations and that the 2017-18 work plan has been updated with specific objectives and activities related to follow-up on EITI recommendations.

3.10 Corrective action 10

In accordance with Requirements 7.4.a.iii, 7.4.a.iv and 7.4.b, the MSG should, in preparing the next annual progress report, conduct an assessment of follow-up on EITI recommendations and impact of implementation based on consultations with a broad range of stakeholders.

Findings from the first Validation

The first Validation concluded that STP had made meaningful progress in meeting this requirement. While it was found that the MSG had developed and approved an annual progress report in accordance with Requirement 7.4 in terms of content, the annual progress report had not been made publicly available. It was recommended that the MSG should use the annual progress reports as a self-assessment tool to monitor progress on implementation work plan objectives and to document the impact of EITI reporting and implementation of recommendations.

Progress since Validation

¹⁷ STP EITI 2017-18 work plan, accessed [here](#) in May 2018

The 2016 annual progress report was approved by the MSG on 28 September and published on the STP EITI and EITI websites.¹⁸ The International Secretariat's analysis of the 2016 Annual Progress Report finds that the report has once again addressed all aspects of Requirement 7.4 in terms of content. The report includes a summary of activities in the previous year (pp.5-6), an assessment of progress with meeting, and in some cases exceeding, each EITI requirement (pp.9-12), an overview of the MSG's responses to, and progress in implementing, the ten recommendations from EITI reporting (pp.13-16), an assessment of progress with achieving workplan objectives (pp.6-7), a narrative account of efforts to strengthen implementation (pp.5-6), and an evaluation of activities related to beneficial ownership disclosure (pp.5-6). The report also highlights stakeholder efforts to strengthen EITI implementation, in particular related to the monitoring of social projects, improving of coordination between government agencies and improving the MSG's effectiveness.

Secretariat's Assessment

The Secretariat is satisfied that the corrective action on the annual progress report has been addressed, and considers that STP has made satisfactory progress in meeting Requirement 7.4. The 2016 annual progress report has been made publicly available and provides a summary of the MSG's follow-up on past EITI recommendations, as well as a narrative account of efforts to strengthen implementation and general observations on the impact of EITI implementation.

5. Changes to assessments of requirements from previous Validation

5.1 Assessment of Requirement 2.4

Findings from the first Validation

The first Validation concluded that STP made satisfactory progress in meeting requirement 2.4. It was found that the 2014 EITI Report cited the legal provision for contract transparency that stipulated that all contracts related to petroleum operations in the EZZ were to be published in the official gazette within ten days of signature. The report had also further explained that accessing contracts at the GRIP office required prior registration. Validation recommended that the MSG ensure that forthcoming EITI Reports comment on the actual practice of contract disclosure and whether full contracts were made available by GRIP. The MSG was also encouraged to consider using EITI reporting to monitor and comment on the discrepancy between the policy and practice.

Progress since Validation

In the period since the first Validation, STP EITI has worked with stakeholders in government, the official gazette (GRIP) and the ResourceContracts portal to establish a platform for uploading full copies of contracts online.¹⁹ All active PSCs, with the exception of the Block 2 agreement with Sinoangol, are now accessible on the ResourceContracts portal. The 2015 EITI Report does not comment on the publication of contracts given that publication took place after the publication of the report, in March 2018.

Secretariat's Assessment

¹⁸ STP EITI Annual Progress Report 2016, accessed [here](#) and [here](#) in May 2018

¹⁹ <https://www.resourcecontracts.org/countries/st>

The Secretariat's assessment it that STP has gone beyond the EITI Requirement with regards to requirement 2.4 on the policy on contract disclosures. Building on its clarification of the government's policy on contract disclosure in previous EITI Reports, the MSG has worked with relevant stakeholders to publish all active oil and gas contracts, aside from the PSC for Block 2 concluded with Sinoangol, as encouraged by the EITI Standard.

5.2 Assessment of Requirement 5.1

Findings from the first Validation

The first Validation concluded that STP had made satisfactory progress in meeting this requirement. Validation found that the 2014 EITI Report provided a clear and comprehensive overview of the distribution of revenues, including annual transfers from the national oil account to the state budget.

Progress since Validation

The 2015 EITI Report provides a comprehensive and detailed overview of how revenues from petroleum activities are recorded in the national budget. It also identifies the revenues that are transferred to the national oil account, the ANP and JDA (p.55).

The report also provides a detailed account of the actual transfers between the national oil account (managed by the Central Bank) and the Treasury Directorate under the Ministry of Finance and Blue Economy. This includes a reconciliation of the transfers made since the oil account's inception in 2003, per reporting year, without any discrepancies (p. 69). The transfers to the national oil account are further broken down by date of transfer, annually over the 2005-15 period (p.75-76), alongside annual transfers to the budget (p.77). The report provides an assessment of whether the transfers are in line with the annual earmarked allocations according to the petroleum revenue legislation (max. 20% of the balance of the national oil account for the state budget per year). The report shows that this rule was complied with for the transfers to the state budget in 2015 and 2016 (p.78). The report also provides details on the retention of revenue from the JDZ by the JDA (pp.72-73), an overview of the JDA's budget and contributions by Nigeria and STP (pp.74-75) and the value of outstanding liabilities owed by STP to Nigeria related to JDA operating expenses.

Secretariat's Assessment

The Secretariat's assessment it that STP has gone beyond satisfactory progress in meeting Requirement 5.1 on the distribution of extractive industry revenues. Extractive revenues that are not recorded in the budget, including their relation to the national budget, are clearly explained in the 2015 EITI Report. The level of detail in the description of off-budget revenues and the reconciliation of transfers from the national oil account to the budget provide the basis for considering that STP has gone beyond Requirement 5.1.

5. Conclusion

Having reviewed the steps taken by STP to address the nine corrective actions requested by the EITI Board, the Secretariat's assessment is that STP has addressed six of the nine corrective actions and has made "satisfactory progress" on requirements related to MSG governance (#1.4), work plan (#1.5), exploration (#3.1), social expenditures (#6.1), lessons Learned and follow-up on recommendations (#7.3) and outcomes and impact of implementation (#7.4). Requirements where further action would be needed

to make satisfactory progress against the EITI Standard are licence allocations (#2.2), license register (#2.3) and data quality (#4.9).

Annex 1: Board decision on São Tomé and Príncipe's request for adapted implementation (BD 2016-3)

At the 32nd Board meeting in Lima on 23 February 2016, the Board made the following decision regarding the São Tomé and Príncipe's request for adapted implementation with regards to required disclosures from the JDZ:

The EITI Board accepts the São Tomé and Príncipe EITI National Committee's request for adapted implementation with respect to reconciliation of revenues and disclosure of contextual information related to the Nigeria- São Tomé and Príncipe Joint Development Zone. The request is accepted concerning the 2015 and 2016 EITI Reports. In line with the request, the EITI Board expects the National Committee and the Government of São Tomé and Príncipe to continue their efforts to ensure full disclosure of information required by the EITI Standard by the Joint Development Authority and by the companies operating in the Joint Development Zone.

The EITI Standard allows for adapted implementation "where the country faces exceptional circumstances that necessitate deviation from the implementation requirements" (Requirement 1.5). In taking this decision, the EITI Board recognises São Tomé and Príncipe's concern that the Government of São Tomé and Príncipe and the National Committee do not have the legal authority to compel the Joint Development Authority, or companies operating in the Joint Development Zone that are based in another country, to participate in the EITI process.

In line with the request for adapted implementation, the Board requires that the Government of São Tomé and Príncipe and the National Committee continues its efforts to engage the Joint Development Authority and the companies making material payments to the Joint Development Authority in São Tomé and Príncipe's EITI reporting process, and seeks to ensure full disclosure of both revenues and contextual data in line with the EITI Standard. Where comprehensive information is not obtained from these entities, the National Committee is expected to include links to other publicly available sources of information. The National Committee's efforts to involve the Joint Development Authority and companies operating in the Joint Development Zone should be assessed in Validation.

Companies operating in the Joint Development Zone that are registered in São Tomé and Príncipe are not included in the scope of adapted implementation and the National Committee is required to ensure that they fully comply with EITI Requirements. It is also a requirement that there continues to be full unilateral disclosure of any revenues received by the Government of São Tomé and Príncipe from the Joint Development Authority and any other information related to the Joint Development Zone that can be obtained from a Santomean government entity in accordance with the EITI Standard.

In addition, the Board requests that the National Committee takes steps to ensure that EITI Reports include an assessment of the comprehensiveness of the information, particularly with respect to information related to the Joint Development Zone. As per requirement 5.3d, the reports should identify any "any gaps or weaknesses in reporting ... and an assessment of whether this is likely to have had material impact on the comprehensiveness of the report". The Board also recommends that the National Committee takes steps to strengthen collaboration with Nigeria EITI through the Nigeria-São Tomé and Príncipe EITI sub-committee to find a sustainable solution for ensuring transparency in the Joint Development Zone.²⁰

²⁰ <https://eiti.org/BD/2016-3>