Validation of Chad

For decision  For discussion  For information

The International Secretariat recommends that the Validation Committee recommends that the EITI Board agree that Chad has made meaningful progress in implementing the 2016 EITI Standard. In accordance with requirement 8.3c, Chad will be requested to undertake corrective actions before the second Validation on <date of Board decision + 18 months>.

Supporting documentation
Validation report [English] [French]
Comments on the draft Validation Report by the MSG [English] [French].
Draft Validation report [English] [French]
Initial assessment by the International Secretariat [English] [French].

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 mid-2020. The cost of second Validations varies depending on the complexity of the extractive industries and the number of corrective actions. In this case, a second Validation is expected to cost circa 25 000 USD, including staff time and travel (if needed).

Document history

| Draft Board Paper reviewed by the Validation Committee | 10 April 2019 |
| Validation Committee agreement on a Board Paper | TBC |
VALIDATION OF CHAD

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Proposed Board decision on the Validation of Chad

The Validation Committee recommends that the EITI Board takes the following decision:

Following the conclusion of Chad’s Validation, the EITI Board decided that Chad has made meaningful progress overall in implementing the EITI Standard.

The Board congratulates the Government of Chad and the Multi-Stakeholder Group (MSG) on the progress made in improving transparency in the oil and gas sector in recent years, despite the challenging environment of falling government revenues and security threats from Boko Haram.

The Board recognises the challenging space for civil society and the efforts being made to address those challenges. The Board expresses concerns on the deterioration of civil society’s freedom of expression, operation and association since Ordonnance 23 came into force. The Board encourages the Government of Chad to take all necessary measures to ensure civil society representatives can participate freely in the EITI process in accordance with the Civil Society Protocol and that transparency can lead to informed public debate.

The Board notes stakeholders’ efforts to use the EITI Reports to monitor the cost of production and transport of crude oil from the oil fields to the export terminal in Kiribi. The Board also recognises Chad’s efforts to go beyond the minimum requirements of the EITI Standard in the disclosure of contracts, information about the legal framework and on disclosures of in-kind revenues, including repayments of oil backed-loans.

The Board encourages EITI Chad to improve disclosure of direct subnational payments and subnational transfers to local communities mandated by law. EITI Chad is also encouraged to improve transparency of expenditures that are not recorded in the national budget, license allocation, and production data.

The Board has determined that Chad will have 18 months, i.e. until <date of Board decision + 18 months> before a second Validation to carry out corrective actions regarding the requirements relating to civil society engagement (1.3), MSG governance (1.4), license allocation (2.2), license register (2.3) production data (3.2), direct subnational payments (4.6), subnational transfers (5.2), SOE quasi-fiscal expenditures (6.2), and public debate (7.1). 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, Chad’s MSG 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 September 2018. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed by an Independent Validator, who submitted a draft Validation report to the MSG for comment. The MSG’s comments on the report were taken into consideration by the independent Validator in finalising the Validation report and the independent Validator responded to the MSG’s comments. The final decision was taken by the EITI Board.

Background

Chad announced its intention to implement the EITI in 2007. A Presidential decree established the MSG in December 2007, but appointment of members to the High National Committee (Haut Comité National, HCN) was delayed until February 2010. Chad was admitted as a candidate country on 16 April 2010. The Board declared Chad compliant with the EITI Rules in October 2014.

The Validation process commenced on 1 September 2018. In accordance with the Validation procedures, an initial assessment as prepared by the International Secretariat. The Independent Validator reviewed the findings and wrote a draft Validation report. Comments from the MSG were received on 7 February 2019. The Independent Validator reviewed the comments and responded to the MSG, before finalising the Validation report. The Validation Committee reviewed the case on 10 April 2019. Based on the findings above, the Validation Committee agreed to recommend the assessment card and corrective actions outlined below. The Committee also agreed to recommend an overall assessment of “meaningful progress” in implementing the 2016 EITI Standard. Requirement 8.3.c. of the EITI Standard states that:

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.

... 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 18 months to undertake corrective actions. This recommendation takes into account that the challenges identified are relatively significant and seeks to align the Validation deadline with the timetable for Chad’s EITI Reports.
### Assessment card

The Validation Committee recommends the following assessment:

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<th>EITI Requirements</th>
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Corrective actions

The EITI Board agreed the following corrective actions to be undertaken by Chad. Progress in addressing these corrective actions will be assessed in a second Validation commencing on the date of Board decision + 18 months:

1. In accordance with Requirement 1.3 and the Civil Society Protocol, Chad is required to ensure adequate space for civil society to actively, fully and effectively participate in the EITI process, without fear of reprisal. It is recommended that adequate safeguards be implemented to effectively remove provisions of laws and regulations (e.g. Ordonnance 23) that curb civil society’s ability to operate freely. It is recommended that the scope of the provisions in the presidential decree to protect civil society members of the MSG is expanded to include legal protections for all civil society actors substantially involved in the EITI process.

2. In accordance with Requirement 1.4, Chad should ensure that procedures set out in the 2018 Decree are implemented in practice. Chad should ensure each constituency publishes its procedures for nominating and changing MSG members and ensure that MSG members have the capacities to carry out their duties. The MSG should clarify its policy and practice of per diems and ensure that it does not create conflicts of interest. Chad should ensure that there is sufficient notice of meetings and timely circulation of documents prior to their debate and proposed adoption. Chad must ensure that all MSG discussions and decisions are adequately documented and is encouraged to publish them online. Chad is also encouraged to provide adequate training to new MSG members, to provide adequate funding to EITI implementation and to ensure that the MSG operates in a favourable environment to carry out its mandate as per Art.24 of the 2018 Decree, in order to allow Chad EITI to fulfil its mandate. Given its central role in the petroleum industry in Chad, it is also recommended that Glencore designates its representative to the MSG to ensure that the industry is adequately represented.

3. In accordance with Requirement 2.2, Chad should ensure that the information on licenses awarded and transferred in both sectors is publicly accessible. Chad is required to disclose the technical and financial criteria used to award or transfer licenses. In the case of licenses awarded by bidding process, Chad is required to disclose the list of applicants and the bid criteria. Chad should ensure that the MSG operates in a favourable environment to carry out its mandate as per Art.24 of the 2018 Decree, in order to allow Chad EITI to fulfil its mandate. Given its central role in the petroleum industry in Chad, it is also recommended that Glencore designates its representative to the MSG to ensure that the industry is adequately represented.

Beyond. The country has gone beyond the requirements.

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

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

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

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

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.
information on the allocation of licenses in EITI reporting, including commentary on the efficiency
and effectiveness of licensing procedures.

4. In accordance with Requirement 2.3, Chad is required to maintain a publicly available register or
cadastre system, providing comprehensive data on licenses for all oil, gas and mining companies.
In addition to its stated plans for strengthening the cadastre, Chad might wish to build on the map
currently available on the MPE website. In the interim, Chad should ensure that future EITI
reporting provide the information set out under Requirement 2.3.b, including coordinates and
dates of application and expiry, for all licenses held by material mining, oil and gas companies.
EITI reporting should also document the government’s efforts to strengthen its cadastral system.

5. In accordance with Requirement 3.2, Chad is required to ensure comprehensive disclosure of
production data from the mining sector.

6. In accordance with Requirement 4.6, Chad is required to reconcile and disclose revenues
collected at the local level where material. Chad should allocate the adequate means to reach out
to subnational governments and associate them to the reporting and reconciliation process. Chad
should also disclose figures from companies that operate in producing regions and are required to
make subnational direct payments as per the regulatory framework. Chad should also clarify in
which areas payments are made directly to the treasury in the absence of a local government.

7. In accordance with Requirement 5.2, Chad should ensure that effective subnational transfers are
disclosed by government agencies, where material. Chad should provide the specific revenue-
sharing formula for calculating statutory shares to individual local governments, the value of
executed transfers per local government and an assessment of deviations with the value of
subnational transfers calculated according to the formula. Chad is encouraged to ensure that any
material discretionary or ad hoc transfers are also disclosed and where possible reconciled. In
light of the dissolution of the CCSRP in April 2018 and its mandate to report on the disbursement
and allocation of the 5%, Chad is encouraged to clarify which government agencies are tasked
with these prerogatives from 2017 onwards. Chad is also encouraged to engage with local
governments receiving extractives subnational transfers with a view to reconciling subnational
transfers with a view to reconciling such payments and enhance outreach to local communities.

8. In accordance with Requirement 6.2, Chad is required to develop a reporting process for fuel
subsidies and national debt servicing that are not recorded on the national budget. Chad should
undertake a comprehensive review of all expenditures of oil revenues, which are not recorded on
the national budget. Chad should develop a reporting process for these expenditures with a view
to achieving a level of transparency commensurate with other payments and revenue streams. In
particular, it is recommended that Chad designs appropriate reporting templates that can capture
the volume and value of crude oil delivered to the refinery for electricity production as well as the
amount of electricity and equivalent value delivered to the state.

9. In accordance with Requirement 7.1, Chad should ensure that EITI reporting is comprehensible,
including by ensuring that it is written in a clear, accessible style, and that executive summaries or
thematic sub-reports are made available and translated into Arabic. Chad should also ensure that
adequate funding is available for outreach events, including to regions and communities hosting
extractive activities, and that local stakeholders benefit from capacity building activities aiming at
improving their understanding of the management of the oil sector. Chad should also encourage
government agencies, companies and civil society to fully engage in disseminating EITI Reports,
including bilaterally. To strengthen implementation, Chad is encouraged to improve public
accessibility of key information on the management of the extractives through systematic
disclosure of information required under the EITI Standard through routine government and
company systems.

The government and the MSG are 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.