

Board decision on the Validation of Chad

Decision reference: 2019-38/BC-273

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The Board's 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 Kribi. 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 **1 November 2020** 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 [English] [French] as prepared by the International Secretariat. The Independent Validator reviewed the findings and wrote a draft Validation report [English] [French]. Comments from the MSG [English] [French] were received on 7 February 2019. The Independent Validator reviewed the comments and responded to the MSG, before finalising the Validation report [English] [French].

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.

Scorecard

EITI Requirements		Level of Progress				
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond
MSG oversight	Government engagement (#1.1) 					
	Industry engagement (#1.2) 					
	Civil society engagement (#1.3) 					
	MSG governance (#1.4) 					
	Workplan (#1.5) 					

EITI Requirements		Level of Progress				
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond
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)					
	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)					

EITI Requirements		Level of Progress				
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond
Overall Progress						

-  **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 Chad. Progress in addressing these corrective actions will be assessed in a second Validation commencing on **8 October 2020**.

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. In addition, Chad is encouraged to disclose comprehensive and timely information about licenses awarded before and after the year under review. Chad is encouraged to include additional 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.

News

Chad's progresses in EITI implementation

Chad has made meaningful progress in implementing the EITI with significant improvements in contract transparency and commodity trading.

The EITI Board decided that Chad has made meaningful progress in implementing the EITI Standard. Validation, which is the quality assurance of the EITI Standard found that Chad's performance in implementing EITI Requirements has been generally positive but remains uneven.

Breaking new ground in the disclosure of cost oil and repayments of oil-backed loans

The Board recognised Chad's pioneering effort to disclose specific revenue streams including the cost for extracting oil and for transporting it through the Chad-Cameroon pipeline to the export terminal in Kribi. Significantly, the disclosure by Exxon of so-called "cash-calls" to cover cost by oil field operator provides a fuller picture of the sector's contribution to the economy. Other field operators could follow Exxon's lead. Similarly, EITI Chad discloses and monitors oil backed loans and loan repayments to inform citizens about the State's debt burden and any impact on the national budget.

Chad goes further in transparency in commodity trading

EITI reporting on the sale of in-kind revenues has provided detailed information to stakeholders and set a strong precedent for citizen oversight on how resources are managed.

The disclosure of more detailed data on oil sales by commodity trader Glencore on behalf of the national oil company Société des Hydrocarbures du Tchad (SHT) is a welcome development and a significant achievement, given that oil backed loans linked to oil sales is a matter of intense public interest and scrutiny in Chad.

In addition to volumes sold and revenues received, the Chad EITI has reported volume and value of oil sold, as well as the quality of the oil, official selling price, the date of sale and date of payment for each cargo of crude oil belonging to the state.

EITI Chad has also contributed to the public debate for a clear government policy on contract transparency adopted in April 2018. Since then, EITI Chad has regularly published contracts on its website, which is becoming a repository of all publicly available contracts in Chad, ensuring that policy is followed in practice.

Areas of improvements include improving space for civil society

Validation found that on balance Chad has made progress on ensuring space for civil society but noted growing restrictions of the space for civil society since 2015. While most incidences are not directly linked to the EITI process, the Board expressed concerns on the potential effects of Ordonnance 23, which if implemented in practice could lead to further restrictions of the civil society protocol.