

Third Validation of STP: Final assessment by the EITI International Secretariat

Third Validation of São Tomé and Príncipe: Draft assessment by the EITI International Secretariat

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1. Summary

São Tomé and Príncipe's (STP) third Validation commenced on 29 December 2019. The EITI International Secretariat has assessed the progress made in addressing the three corrective actions established by the EITI Board following STP's second Validation in June 2018.¹ The three corrective actions relate to:

1. License allocation (Requirement 2.2),
2. Register of licenses (Requirement 2.3),
3. Data quality and assurance (Requirement 4.9),

The Secretariat's assessment is that STP has not addressed the three corrective actions and has made "meaningful progress" with improvements in addressing one of the corresponding requirements. The outstanding gaps relate to license allocation (Requirement 2.2), license register (Requirement 2.3) and data quality and assurance (Requirement 4.9).

The draft assessment was sent to the multi-stakeholder group (MSG) on 1 April 2020. Following comments from the MSG received on 11 May 2020, the assessment was finalised for consideration by the EITI Board.

¹ <https://eiti.org/document/sao-tome-principe-validation-2018>

2. Assessment card

The International Secretariat recommends the following assessment to the EITI Board:

| EITI Requirements | | Level of progress | | | | | Direction of Progress |
|---|--|-------------------|------------|------------|--------------|--------|-----------------------|
| Categories | Requirements | No progress | Inadequate | Meaningful | Satisfactory | Beyond | |
| São Tome and Principe Third Validation scorecard | | | | | | | |
| 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 & 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 & impact of implementation (#7.4) | | | | | | |

3. 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 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 four EITI Reports, covering 2003-2013, 2014, 2015 and 2016–2017. STP has not been able to comprehensively cover activities in the JDZ due to its minority participation in the Joint Development Authority (JDA) that manages the zone. The Board approved STP's adapted implementation request concerning reports covering 2017 and 2018 in April 2019.² The Board found that STP could not be held responsible for obtaining information from JDA or companies registered in Nigeria. The Board decision requires that STP continues to engage with JDA and seeks to disclose comprehensive revenue data and contextual information related to the JDZ. The Board decision followed a similar request covering 2015 and 2016 that the Board had approved in February 2016.³

The second Validation of STP against the EITI Standard commenced on 8 March 2018. On 29 June 2018, the EITI Board found that STP had made “meaningful progress *with considerable improvements*” in implementing the 2016 EITI Standard. Three corrective actions were identified by the Board to be assessed in a third Validation commencing on 29 June 2019. These related to license allocation (Requirement 2.2), license register (Requirement 2.3), data quality (Requirement 4.9). Due to an administrative error, the International Secretariat recorded the commencement date of the third Validation as 29 December 2019 and communicated with the national secretariat accordingly. This error was noticed in August 2019. On 26 August, the Validation Committee agreed that the third Validation would commence on 29 December 2019 as communicated to the country.⁴

STP has undertaken some activities to address the corrective actions:

- On 22 February 2019, the 2016-2017 EITI Report was published.
- On 13 December 2019, a pre-validation workshop was organised to discuss progress in addressing the corrective actions.⁵
- On 14 December 2019, the MSG met to discuss progress on addressing the corrective actions from the second Validation.
- On 27 December 2019, the MSG shared a response received from ANP on addressing corrective actions on Requirements 2.2 and 2.3.

The following section addresses progress on each of the corrective actions. The assessment covers the corrective actions established by the Board and the associated

² <https://eiti.org/board-decision/2019-29>.

³ <https://eiti.org/board-decision/2016-03>.

⁴ <https://eiti.org/document/validation-committee-teleconference-26-august-2019>.

⁵ See Annex A for documentation from post-Validation workshop.

requirements in the EITI Standard. The assessment follows the guidance outlined in the Validation Guide.⁶ 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 2018 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.

The Secretariat is concerned that the national secretariat did not make available all documentation necessary for assessing Requirement 4.9 on data quality. Despite repeated requests in the December 2019 - February 2020 period, the Secretariat did not receive the requested MSG meeting minutes or the ToR of the Independent Administrator. However, contact with the national secretariat in December 2019 suggests that the MSG has discussed progress in meeting the corrective actions and there is no clear indication of backsliding on Requirements 1 and 7.

The MSG requested an extension to the deadline for publishing the 2016-2017 EITI Report. In February 2019, the Board concluded that STP was not eligible for an extension.⁷ The report was published on 22 February 2019. Data concerning 2017 was thus published within two years from the end of the reporting period. Consequently, STP has upheld “satisfactory progress” on Requirement 4.8.

4. Effectiveness and impact of EITI implementation

Impact and effectiveness

Impact and sustainability of EITI: EITI implementation has helped establish transparency in STP’s infant oil industry. EITI Reports have ensured that information about oil companies’ social expenditures, transfers to and from the National Petroleum Account, licensing procedures and contracts are publicly available for the first time. However, interest in the EITI has remained relatively low as there have been no commercial oil discoveries to date despite decades of exploration.

Regardless of the sector’s small size, the approach to implementation has remained focused on producing costly EITI Reports. Four EITI Reports covering years 2003-2017 have been produced by PwC Portugal as the Independent Administrator for a sector that generates roughly USD 7m yearly. The impact of these reports and the size of STP’s oil sector do not appear to justify the cost of EITI implementation. STP has struggled with financing the EITI process. The government relies heavily on budget support from development partners.⁸

There continues to be some activity in STP’s Exclusive Economic Zone and the Joint Development Zone (JDZ) with Nigeria. For example, Nigeria STP JDA signed a production sharing agreement with Total in March 2019.⁹ Developments in the JDZ are not fully

⁶ EITI (2019), ‘EITI Validation Guide’, available at: <https://eiti.org/document/eiti-validation-guide>

⁷ <https://eiti.org/board-decision/2019-12>.

⁸ Table 36.1 of the 2016-2017 EITI Report demonstrates that budget support accounts for nearly half of the state budget.

⁹ <https://www.reuters.com/article/nigeria-sao-tome-oil/nigeria-sao-tome-and-principe-total-sign-oil-production-sharing-deal-idUSL8N2115KB>.

covered by STP-EITI as Nigeria holds a majority in the arrangement and accessing information from Joint Development Authority (JDA) has been challenging for Santomean authorities.¹⁰ STP hold a minority participation in the JDZ. Thus, on 21 November 2018, the MSG requested for adapted implementation related to revenue reconciliation and contextual information related to the Joint Development Zone (JDZ) with Nigeria for the 2017 – 2018 fiscal year. In February 2019, the Board approved STP's request. In line with the request, the EITI Board expects the MSG 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. However, in practice STP cannot oblige the JDA or Nigeria-based companies operating in the JDZ to disclose information.

EITI implementation in STP continues to be justified due to on-going activities in the sector and the small size of the economy, but a rapid shift towards systematic disclosures is necessary to ensure that implementation costs are proportionate with revenues and activity in the oil sector. The website of the National Petroleum Agency (ANP) could be developed into a portal for information about the sector. The first Validation found that eight out of the 24 disclosure related EITI Requirements were not applicable in STP. For example, state-owned companies are not participating in the oil industry, which reduces disclosure requirements. Systematically disclosing information regarding the remaining requirements should be an inexpensive undertaking, building on contextual information already disclosed in earlier EITI Reports and the ANP website. The MSG and the government could consider tasking ANP to act as the EITI national secretariat to ensure that the process is embedded in government and to reduce costs.

Auditing policies and practices for both government agencies and companies are weak in STP (see Requirement 4.9). The preconditions for transitioning into systematic disclosures of revenue data without reconciliation are not met at the moment. As reconciliation is not financially sustainable and the 2019 EITI Standard includes an expectation that revenues are subject to a credible audit, an alternative approach is needed for strengthening data reliability.

Resources could be directed from producing the EITI Report to enabling the Court of Auditors to audit ANP, for example. As a temporary measure, the Independent Administrator could be tasked to reconcile only the largest payments, while all other data would be systematically disclosed by the government. This would bring down the cost of EITI reporting significantly.

Conclusions, lessons learnt and recommendations: STP's current approach to EITI implementation is not sustainable. STP-EITI is playing an important role in ensuring transparency in the management of the oil sector. To continue this work in a proportionate and cost-efficient manner, STP is encouraged to revise its approach to implementation to focus on systematically disclosing data through, for example, ANP's website and building systems that improve data reliability. The MSG is encouraged to seek the International Secretariat's support in designing the revised approach and presenting a proposal to the EITI Board.

¹⁰ See [Board decision 2019-29/BC-271](#) on STP's adapted implementation request:

5. Review of corrective actions

As set out in the Board decision on STP's second Validation, the EITI Board agreed three corrective actions.¹¹ The Secretariat's assessment below considers whether the corrective actions have been sufficiently addressed. The assessments are based on the 2016-2017 EITI Report, alongside documents submitted by the national secretariat to the International Secretariat and e-mail correspondence.

3.1 Corrective action 1: Contract and License Allocation (#2.2)

In accordance with Requirement 2.2, 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.

Findings from the second Validation.

The second Validation concluded that STP had achieved meaningful progress against Requirement 2.2, with considerable improvements in implementing the requirement. The Secretariat was satisfied that the corrective action on transparency in license allocation and transfer practices had been partly addressed. The 2015 EITI Report provided a description of the process for awarding and transferring licenses, including information about the recipients of licenses awarded and transferred, including consortium members where applicable. The government had also disclosed comprehensive information on the technical and financial criteria used in license awards, but not in transfers. The report did not mention the MSG's assessment of any non-trivial deviations from the applicable legal and regulatory framework governing license awards and transfers, although the petroleum regulator confirmed during stakeholder consultations that there were no such deviations in the one PSC awarded in the reporting year.

Progress since Validation

Process for awarding licenses: The 2016-2017 EITI Report provides detailed information on the licensing process in the Exclusive Economic Zone with references to relevant laws (p.35-36). According to the Law on Petroleum Operations, companies can enter into contracts either through bidding rounds or direct negotiation. The 2016-2017 EITI Report refers to the legal provision that companies are required to demonstrate their technical and financial capacity.¹² However, it does not specify what this requires in practice. The report also provides a link to the ANP website, which includes the investor guidelines for the first bidding round in 2010¹³. The guidelines include technical and financial criteria. It appears that no current document detailing the technical and financial criteria for awarding licenses exists.

The process for awarding licenses in the Joint Development Zone (JDZ) is not covered in the EITI Report. In accordance with STP's adapted implementation covering the 2017 and

¹¹ <https://eiti.org/BD/2018-36>

¹² Article 22 of Law No. 16/2009 - Framework Law on Petroleum Operations: <http://www.anp-stp.gov.st/index.php/pt/legislacao/leis/file/6-b-lei-quadro-das-operacoes-petroliferas>.

¹³ ANP, São Tomé and Príncipe 1st licensing round – Guidelines for investors, accessed [here](#) in November 2019

2018 EITI Reports, the MSG and the Government of São Tomé and Príncipe appears to have continued their outreach 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.

License awards in 2016-2017: According to the 2016-2017 EITI Report, one production sharing agreement was signed in 2016. This appears to be the only license awarded in the period under review. The contract concerning offshore Block 12 was signed with Equator Exploration, which immediately transferred a majority stake to Kosmos, which also became the operator (pp. 14, 38). The report includes information about the recipients of the license, including consortium members (table 10.1, p.38). It appears that the contract was awarded through exceptional direct negotiations.

The 2016-2017 EITI Report notes under the column “process for award” that the rights for Block 12 were acquired in 2011 (table 10.1). An ANP press release¹⁴ suggests that rights to Block 12 were awarded to Equator ahead of the 2010 bidding round based on pre-existing rights. The process for negotiating the terms of the contract signed in 2016 is unclear.

ANP highlighted in December 2019 through a document the MSG’s shared with the International Secretariat that article 20 of the Law on Petroleum Operations provides that the award of an oil block should be made through an international tender.¹⁵ Article 21 of the law also provides for the option of direct negotiation for oil contract awards, if the requirements contained in that article are met. ANP noted to the International Secretariat through the MSG that the process leading to the execution of the production sharing agreement concerning Block 12 deviated from the process described in articles 20 and 21 of the Law on Petroleum Operations.

ANP further noted that Blocks 4 and 11 were awarded to ERHC and Blocks 5 and 12 to PGS prior to the bidding round of 2010 and the adoption of the Law on Petroleum Operations (16/2009). PGS subsequently transferred its rights to Equator Exploration. As Equator already held the pre-existing rights to Block 12, no specific technical or financial criteria were applied in the contract negotiations. In conjunction with the signature of the PSA, ANP approved the transfer of a majority of Equator’s stake to Kosmos, which also became the operator of the block.

In its commentary provided to the International Secretariat through the MSG, ANP recognised that the process for awarding the contract to Equator did not follow articles 20 or 21 of the Law on Petroleum Operations due to pre-existing rights. It noted that despite this, the award process was conducted in “*strict compliance with the legal and contractual provisions in force in São Tomé and Príncipe*”. The additional information provided to the International Secretariat had not been published at the start of Validation. The 2016-2017 EITI Report did not flag deviations from the legal framework in awarding the license. The PSA concerning Block 12 is publicly available on resourcecontracts.org.¹⁶

For the Joint Development Zone with Nigeria, the 2016-2017 EITI Report provides an overview of active and inactive oil and gas blocks and notes that the Joint Development Authority (JDA) collected signature bonuses in 2016-2017. No further information

¹⁴ ANP Press Release http://www.stp-eez.com/Downloads/Press/ANP-STP_PR_19Feb10.pdf

¹⁵ See Aneex A.

¹⁶ <https://www.resourcecontracts.org/countries/st>.

regarding license awards in the period under review is provided. In light with the terms of STP's adapted implementation covering the 2017 - 2018 EITI Reports, the MSG has referenced other publicly available sources of information, given that comprehensive information could not be obtained from companies and government entities in the JDZ.

Process for transferring licenses: The 2016-2017 EITI Report does not describe the process for transferring rights, nor the technical and financial criteria used by the government in the approval process. The Law on Petroleum Operations¹⁷ (section 18) notes that transfers are subject to ANP approval, but the law does not specify the criteria. It only states that a change of operator is subject to government approval (section 31).

License transfers in 2016-2017: Regarding transfers of licenses, the 2016-2017 EITI Report documents five transfers in 2016 (p.36):

- A transfer of 65% of Block 5 from Equator Exploration to Kosmos Energy, which further transferred 20% to Galp Energia.
- A transfer of 20% of Block 11 from Kosmos to Galp Energia.
- A transfer of 65% of Block 12 from Equator Exploration to Kosmos Energy, which further transferred 20% to Galp Energia.
-

The report does not highlight the MSG's assessment of any non-trivial deviations from statutory procedures for license transfers in the years under review. ANP confirmed in its commentary to the International Secretariat that no assessment of the technical and financial capacity of the transferees was undertaken, as Kosmos and Galp Energia were already operating in the EEZ.

ANP noted that the transfers did not result in substantial revenue for the Government of STP. The state received USD 100,000 for each transfer application. ANP further highlighted through the MSG that the transfers were conducted according to the legal and contractual provisions in STP.

Secretariat's Assessment

The International Secretariat's assessment is that the corrective action on license allocations has not been addressed and that STP has achieved meaningful progress without improvements on Requirement 2.2. The 2016 - 2017 EITI Report, publicly accessible laws and the ANP website provide information about the process for awarding and transferring licenses. Information about the recipients of licenses awarded and transferred in the period under review is available in the EITI Report and the ANP website. However, information about the process for awarding the contract concerning Block 12 in 2016 is not publicly available. ANP provided a description of the process to the International Secretariat through the MSG and noted a deviation from the current legal framework. This additional information has yet to be published at the time of writing this assessment.¹⁸ In line with the terms of STP's adapted implementation covering the 2017 - 2018 EITI Reports, the MSG has referenced other publicly available sources of information on license allocations in the JDZ, given that comprehensive information could not be obtained from companies and government entities in the JDZ.

¹⁷ ANP, Laws, accessed [here](#) in Nov 2019.

¹⁸ March 2020.

In accordance with Requirement 2.2, ANP should disclose the process for awarding petroleum licenses including the technical and financial criteria and an explanation of any non-trivial deviations from the legal framework governing the award and transfers of petroleum licenses in the year under review.

To strengthen implementation, ANP is encouraged to ensure that information about the process for awarding and transferring licenses, as well as actual awards and transfers is comprehensively disclosed in a timely manner on the government websites, such as that of the ANP. The MSG is encouraged to use the EITI reporting to aggregate and analyse publicly accessible information that is already systematically disclosed.

3.2 Corrective action 2: License register (#2.3)

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.

Findings from the second Validation

The second Validation concluded that STP had achieved meaningful progress on Requirement 2.3, with considerable improvements. The corrective action on license register had been partly addressed. Dates of application were not publicly available for contracts and licenses held by companies within the scope of reporting. The report did not document or explain any legal or practical barriers preventing such disclosure and did not provide an account of government plans for overcoming such barriers nor the anticipated timescale for implementing such plans.

Progress since Validation

The 2016–2017 EITI Report (Table 10.1/10.2) (pp.38-39) provides the names of all the license holders, type of authorisation, adjudication process, signature date, effective date and the authorisation duration. The names, areas and sizes of the blocks are also provided. The report (p.39) provides an image of the location of the blocks and their respective coordinates. The image is blurry, but coordinates can be deduced from it. All contracts are available on www.resourcecontracts.org and include the coordinates. The ANP website¹⁹ includes a register of all active oil and gas licenses in STP including 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.

For the JDZ, table 14, (p. 51) of the EITI report provides the name of blocks, area, initial consortium, operator, partners and status of operations. Coordinates of the license area are not provided. Dates of application and date of award and the commodity being

¹⁹ ANP, overview of petroleum rights, accessed [here](#) in December 2019.

produced are also missing. In light of STP's adapted implementation covering the 2017 – 2018 EITI Reports, the Board agreed that, where comprehensive information was not obtained from companies and government entities in the JDZ, the MSG was expected to reference other publicly available sources of information. There is however no reference to any published data on the JDZ. The Joint Development Authority's website does not appear to include license information.²⁰

Neither the 2016–2017 EITI Report nor the license register on the ANP website provide application dates for active petroleum licenses. The EITI Report does not clarify whether application dates are recorded elsewhere nor provide explanations of any legal and practical barriers preventing the disclosure of application dates. ANP could have used the deadlines for submission of bids in bidding rounds as a proxy for dates of application in the license register.

ANP highlighted through the MSG comments shared with the International Secretariat that the current registration system did not record the application dates. The MSG has not made any reference to plans to address this gap. ANP noted that announcements for expressions of interest in the blocks that took place in the period 2015–2018 were public and published on the ANP's website²¹, as required by Article 21 of the Law on Petroleum Operations. According to ANP, the various stages for these tender processes were conducted in accordance with legal provisions in place. In the MSG's feedback on the Secretariat's draft assessment, ANP noted that its archiving system did not allow recording the application dates for licenses granted through direct negotiations. It was planning to address this shortcoming in an update to its website in 2020.

Secretariat's Assessment

The International Secretariat's assessment is that the corrective action on license register has not been addressed and that STP has achieved meaningful progress with improvements on Requirement 2.3, subject to consideration of ANP's plan to overcome practical barriers to the disclosure of application dates of contracts granted through direct negotiations.

Legal or practical barriers preventing the disclosure of application dates are not explained in the 2016-2017 EITI Report or in other publicly available sources, and there is no indication of the government attempting to record and disclose application dates following the second Validation. However, the MSG feedback on the Secretariat's draft assessment includes ANP's explanation of practical barriers to disclosures and a plan to overcome these.

Despite the terms of STP's adapted implementation covering the 2017 – 2018 EITI Reports, the MSG did not reference other publicly available sources of information on licenses in the JDZ in the 2016-2017 EITI Report, where comprehensive information was not obtained from companies and government entities in the JDZ. No information about licenses in the JDZ appears to be publicly available.

²⁰ <https://nstpjda.org/>.

²¹ANP, Publication, accessed [here](#) in December 2019

In accordance with Requirement 2.3.b, São Tomé and Príncipe is required to maintain a publicly available register or cadastre system, including timely and comprehensive information on the date of application for each of the licenses of companies covered in the EITI Report. ANP is expected to implement its plan to overcome practical barriers to the disclosure of application dates.

São Tomé and Príncipe is encouraged to engage with the Joint Development Authority (JDA) to ensure that comprehensive license information for the Joint Development Zone is publicly available.

3.3 Corrective action 3: Data quality (#4.9)

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.

Findings from the second Validation

The second Validation concluded that STP had made meaningful progress against Requirement 4.9. The 2015 EITI Report provided 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 included an overview of follow-up on past recommendations and a set of new recommendations based on the 2015 reporting cycle. The report however did not include a clear statement from the IA on the comprehensiveness and reliability of reconciled financial data.

Progress since Validation

The national secretariat did not provide the Independent Administrator's terms of reference or relevant MSG meeting minutes despite repeated requests from December 2019 to February 2020. Therefore, it is not possible to assess whether the IA's ToR is in line with the standard ToR and whether the MSG endorsed the selection of the IA and agreed the reporting templates and assurances.

The 2016-2017 EITI Report provides a clear picture of the audit practices of reporting entities. The report includes relevant findings that demonstrate the limitations of audit requirements and practices that apply to companies and government entities covered in the EITI Report. The legal requirements related to auditing are described. It is clear from the report that payments and revenues were not subject to independent audits following international standards. The report provides recommendations for strengthening auditing practices (p.112).

The report notes that reporting government entities did not appear to have undergone external audits in the period under review and refers to the website of the Court of

Auditors.²² The reason for this is not documented. Information about companies' financial statements is provided on parent-level, including the name of the auditor (p.68). Due to limited activities and the lack of legal requirements, no extractive companies produced audited financial statements in STP. The report notes that ANP has the right to audit oil companies but has not exercised this right to date. Feedback from the MSG on the draft assessment noted that this was not correct and ANP had audited oil companies.

The 2016-2017 EITI Report notes that the MSG agreed to request management sign-off of reporting templates. The report states that all reporting entities submitted reporting templates were signed by senior officials but does not specify the positions of these officials (p.28). The report includes the reporting templates in annex but does not document whether the officials signed off on a statement of accuracy. Additionally, companies were asked to provide their latest audited financial statements, which were not made available as none of the reporting companies produced audited financial statements related to their operations in STP.

The initial net discrepancies between revenues and payments was 1.4% of total extractive revenues in 2016 and 5.2% in 2017.²³ The report notes that all discrepancies were solved and explains the reason behind each of them (pp.78-80). Discrepancies were typically caused by different interpretations of the reporting template and entities recording payments under different years.

The report does not include a clear statement from the IA on the reliability and comprehensiveness of the reconciled financial data. It notes that the IA does not assume any responsibility of the information and that no audit has been undertaken (p.7). However, the report does clearly document the work undertaken by the IA, limitations to data reliability, the assurances applied and compliance with them. It is not explicitly stated whether the IA considers these assurances to be adequate for ensuring data reliability. However, key findings from the IA's assessment with regards to the reliability of the data are documented throughout the report. The report provides a sufficient overview of data quality to inform the reader on the reliability of the data.

The IA does not provide a precise assessment of the comprehensiveness of financial disclosures. The report notes that reconciliation covered 97% of extractive revenues, but this appears to refer to 2016 and 2017 jointly (p.18). The report notes that Oranto and Sinoangol did not submit data but fails to analyse the impact of this omission on the comprehensiveness of disclosures. According to government data, Sinoangol made no payments in 2016-2017, and Oranto made payments only in 2016. Oranto's payments in 2016 represented 5.7% of total extractive revenues. This can be calculated from the information in the report sourced from the government's unilateral disclosures of revenues but is not clearly presented.

The report notes that all data submitted by reporting entities was treated confidentially and used only for EITI reporting purposes (p.28). The IA provided the data in summary format following the template provided by the International Secretariat.

²² <http://www.tcontas-st.com/>.

²³ Calculated by the International Secretariat based on information on pp.78-79 of the 2016-2017 EITI Report.

Secretariat's Assessment

The International Secretariat's assessment is that the corrective action on Requirement 4.9 has been partly addressed and that STP has achieved meaningful progress without improvements on Requirement 4.9. The 2016-2017 EITI Report documents the audit policies and practices of reporting entities and provides recommendations to address weaknesses. Compliance with MSG-agreed assurances is documented and discrepancies were investigated. The report does not include a clear statement from the IA on the comprehensiveness and reliability of reconciled financial data. However, the unilateral disclosures by the government allow the reader to make the assessment. Adherence to the standard procedures and MSG oversight could not be confirmed due to lack of access to key documents.

In accordance with Requirement 4.9, São Tomé and Príncipe should demonstrate that the Independent Administrator's ToR is aligned with the standard ToR and that MSG was adequately involved in the design of the EITI Report. The Independent Administrator should provide a clear statement related to the comprehensiveness and reliability of the reconciled financial data, in accordance with Requirement 4.9.a and the standard ToR for Independent Administrators

To strengthen the implementation of Requirement 4.9, São Tomé and Príncipe is encouraged to seek to strengthen the auditing policies and practices of government entities and extractive companies, with a view to developing credible, routine, independent audit, applying international auditing standards, as a means of transitioning to systematic disclosures of payments and revenues.

6. Conclusion

Having reviewed the steps taken by the MSG to address the three corrective actions requested by the EITI Board as of the commencement of its third Validation on 29 December 2019, the Secretariat's assessment is that the three corrective actions have not been fully addressed. The outstanding gaps relate to license allocation (Requirement 2.2), license register (Requirement 2.3) and data quality (Requirement 4.9).

Annex A - São Tomé and Príncipe 2018 Post-Validation Self-Assessment Workshop

Note: Following the conclusion of São Tomé and Príncipe's second Validation, the EITI Board decided that São Tomé and Príncipe has made meaningful progress overall in implementing the EITI Standard. 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 third Validation commencing on **29 December 2019**. This post-Validation workshop attempts to track progress in addressing corrective actions and to develop concrete steps in doing so.

| Requirement | Validation Results | Technical Gaps/Corrective Actions | Question/Status | Next steps (Timeline=before 29 December 2019) |
|--|--------------------|--|--|---|
| License allocation (#2.2) | Meaningful | 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. | <p>What steps have been taken by the MSG to disclose:</p> <ul style="list-style-type: none"> the technical and financial criteria used in awarding licenses any non-trivial deviations from the applicable legal and regulatory framework governing license transfers and awards | |
| <p>Provide relevant responses here:</p> <p>In 2016, ANP-STP executed a Production Sharing Contract (PSC) in respect to Block 12 of the Exclusive Economic Zone (EEZ) and authorized 5 transfers of interests.</p> <ul style="list-style-type: none"> <u>Which criteria and procedures were taken into account for the award and the subsequent execution of Block 12 PSC</u> <p>The technical and financial criteria and requirement for awarding oil blocks are provided in Law No. 16/2009 - Framework Law on Petroleum Operations, dated December 31, published on the Official Gazette No. 90. Article 22° of Law n°. 16/2009 provides such criteria. These criteria were also detailed on the announcement inviting interested companies to express their interest in the blocks. These announcements are available at ANP-STP website (www.anp-stp.gov.st).</p> <p>On the other hand, the Framework Law on Petroleum Operations provides in its Article 20° that the award of an oil block should be made throughout international tender. Article 21° of that law provides for the possibility for a direct negotiation of an oil contract, as long as the requirements contained in that article are met.</p> | | | | |

The process leading to the execution of the Block 12 contract was different from those provided for in Articles 20° and 21° of the Framework Law on Petroleum Operations. The issue is therefore the following; Why that deviation from the established rules?

For a better understanding, it should be recalled that there are 4 EEZ blocks that due to agreements concluded in the past by the State of São Tome and Principe, these blocks were awarded to two different companies, namely PGS and ERHC. Blocks 4 and 11 were awarded to ERHC and Blocks 5 and 12 PGS. PGS then, transferred its rights to Equator Exploration. This explains why EEZ Block 12 was not brought into an international public tender. In fact, similar to what had happened to Blocks 5 and 11, the only thing that was imposed to ANP-STP and Government, was to invite Equator Exploration to start the negotiation aiming the execution of PSC for EEZ Block 12. Just for clarification purposes, it should be stressed that the Block 12 PSC was executed between ANP-STP and Equator Exploration. Afterward, Kosmos Energy joined in to the block throughout a farm in process.

- Which criteria and procedures were taken into account for farm-out and farm-in processes

With regard to farm-out and farm-in processes, it should be noted that in 2016 there were effectively 5 transfer process namely the partial transfer from Equator Exploration to Kosmos Energy on Blocks 5 and 12 and, partial transfer from Kosmos Energy to Galp Energia on blocks 5, 11 and 12. Being these transfers the result of negotiation between private companies, from a financial perspective, these transfers did not result on substantial revenue for the State of Sao Tome and Principe. The State only received the amount of USD 100 000 (one hundred thousand dollars) for each of submission requesting ANP-STP consent for such transfer.

From an ANSTP perspective in its capacity of regulatory body and as well as that of the Government, Kosmos Energy and Galp Energia, both are companies that were already operating in other EEZ blocks and fulfilled the technical and financial capacity to be part of a PSC in the EEZ. Both companies had been previously assessed on their technical and financial capacity for carrying out petroleum operation on EEZ.

Based on the aforementioned, such transactions (awards and transfers) were conducted on a strict compliance with the legal and contractual provisions in force in Sao Tome and Principe.

| | | | | |
|-------------------------|------------|---|---|--|
| License register (#2.3) | Meaningful | 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 | What steps have been taken by the MSG to: <ul style="list-style-type: none"> • maintain a publicly available register or cadastre system • document and explain any significant legal or practical barriers preventing such comprehensive disclosure, including an account of government plans for seeking to overcome such | |
|-------------------------|------------|---|---|--|

timescale for achieving them.

barriers and the anticipated timescale for achieving them.

Provide relevant responses here:

There is available on the ANP-STP website (www.anp-stp.gov.st) a public registration of authorizations/registration system but which does not yet include information regarding the request and dates for direct negotiations. However, the announcements for expressions of interest in the blocks, that took place on the period 2015–2018 were public and disclosed at relevant media, as required by Article 21º of the Framework Law on Petroleum Operations. The timeline and others various stages for these tender processes were conducted in accordance with legal provisions in place.

For the sake of clarity, and without prejudice to the announcements and advertisements launched on different media, we are sharing the links containing some of these announcements/communications which are still available at ANP-STP website:

- (<http://www.anp-stp.gov.st/index.php/pt/publicacoes/noticias-pt/item/89-a-anp-stp-convida-o-consorcio-total-e-p-activites-petrolieres-e-a-sonangol-ep-para-a-negociacao-do-contrato-de-partilha-de-producao-cpp-relativo-ao-bloco-1-da-zee>)
- (<http://www.anp-stp.gov.st/index.php/pt/publicacoes/noticias-pt/item/88-anp-stp-torna-publico-convite-para-a-exploracao-do-bloco-1-e-a-aquisicao-de-interesses-participativos-no-bloco-2-da-zee-stp>)
(<http://www.anp-stp.gov.st/index.php/pt/publicacoes/noticias-pt/item/83-comunicados>)
- (<http://www.anp-stp.gov.st/index.php/pt/publicacoes/noticias-pt/item/81-concurso-restrito-para-os-blocos-10-e-13-da-zee-stp>)
- (<http://www.anp-stp.gov.st/index.php/pt/publicacoes/noticias-pt/item/80-solicitacao-a-manifestacao-e-interesse-para-os-blocos-10-e-13-da-zee-stp>)
 - (<http://www.anp-stp.gov.st/index.php/pt/publicacoes/noticias-pt/item/75-comunicado-de-imprensa-governo-aprovou-acordos-de-cessao-entre-as-companhias-kosmos-energy-e-galp-energia>)
 - (<http://www.anp-stp.gov.st/index.php/pt/publicacoes/noticias-pt/item/73-comunicado-de-imprensa-sobre-acordo-celebrado-entre-a-equator-exploration-e-a-kosmos-energy>)
 - (<http://www.anp-stp.gov.st/index.php/pt/publicacoes/galeria-fotos/galeria-anp/item/72-palestra-sobre-experiencia-de-timor-na-gestao-de-recursos-petroliferos-realizada-entre-a-anp-stp-anp-tl-timor-gap>)
- (<http://www.anp-stp.gov.st/index.php/pt/publicacoes/galeria-fotos/galeria-anp/item/71-assinatura-contrato-galp-energia-bloco-6-novembro-de-2015>)

It is important to stress that there is no any legal constrain preventing the disclosure of this information. Only for technical reasons, in particular due to limitations of the current ANP-STP website, it is not possible to disseminate more information and under a regular basis.

In 2020, ANP-STP intends to renew its website and this will certainly allow us to provide more information in general and in particular, information regarding the license registration system.

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|----------------------------|-------------------|--|---|--|
| Data quality (#4.9) | Meaningful | 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. | Did the MSG ensure that future EITI reporting included a clear statement from the IA on the comprehensiveness and reliability of reconciled financial data? | |
|----------------------------|-------------------|--|---|--|

Provide relevant responses here: