

**REPUBLIC OF TOGO**

**Extractive Industries Transparency Initiative**

**EITI TOGO**

**INDEPENDENT RECONCILIATION REPORT FOR THE YEAR 2010**

**March 2012**



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This report has been prepared at the request of the Steering Committee charged with the implementation of the Extractive Industries Transparency Initiative in TOGO (EITI Togo). The views expressed in the report are those of the Independent Reconcilers and in no way reflect the official opinion of the EITI Togo Secretariat. This report has been prepared exclusively for use by EITI Togo and must not be used by other parties, nor for any purposes other than those for which it is intended.

## CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>4</b>
Limitations to reconciliation work .....	4
Principal findings arising from reconciliation work .....	5
<b>1. INTRODUCTION .....</b>	<b>8</b>
1.1 Extractive Industries Transparency Initiative (EITI) .....	8
1.2 The EITI in Togo.....	10
1.3 The national context of the extractive sector in Togo .....	11
<b>2. OBJECTIVES AND SCOPE OF THE ENGAGEMENT.....</b>	<b>12</b>
2.1 Objectives of the engagement .....	12
2.2 Extractive companies involved in the reconciliation.....	12
2.3 Centres for collection of payments owed by extractive companies .....	16
2.4 Receipts and taxes subject to reconciliation work .....	16
2.5 Materiality.....	19
<b>3. APPROACH AND METHODOLOGY .....</b>	<b>20</b>
3.1 Approach .....	20
3.2 Methodology adopted.....	22
<b>4. RESULTS OF FIELDWORK .....</b>	<b>24</b>
4.1 Reconciliation by extractive company.....	24
4.2 Reconciliation by payment type .....	26
4.3 Adjustments.....	29
<b>5. FINAL UNRECONCILED DIFFERENCES .....</b>	<b>32</b>
<b>6. ANALYSIS OF KEY INDICATORS IN THE EXTRACTIVE SECTOR.....</b>	<b>35</b>
6.1 Contribution made by the extractive sector by activity.....	35
6.2 Contribution made by payments .....	35
6.3 Revenues declared in this EITI report as a proportion of Government revenues and GDP.....	35
<b>7. FINDINGS AND RECOMMENDATIONS.....</b>	<b>36</b>
<b>8. CONCLUSIONS.....</b>	<b>38</b>
<b>ANNEXES .....</b>	<b>39</b>
Annex 1 : Production data declared by extractive companies .....	40
Annex 2 : Breakdown of mining rights by extractive company <sup>(1)</sup> .....	41
Annex 3 : Details of companies included in the EITI 2010 sample.....	44
Annex 4 : Reconciliation per company.....	45
Annex 5 : Table of voluntary contributions declared by extractive companies.....	64
Annex 6 : Table showing certification of reporting templates .....	65
Annex 7 : EITI Togo 2010 reporting template.....	66
Annex 8 : List of contacts and people involved in the reconciliation process .....	70

**LIST OF ABBREVIATIONS**

AIT	Additional Income Tax
CD	Custom Duties
CF	Computer Fees
CGT	Capital Gains Tax
CL	Community Levy
CSL	Community Solidarity Levy
CT	Corporation Tax
CV	Customs Value
DE	Directorate of the Environment
DGC	Directorate-General of Customs
DGH	Directorate-General of Hydrocarbons
DGMG	Directorate-General of Mines and Geology
DGT	Directorate-General of Taxes
DGTPA	Directorate-General of the Treasury and Public Accounts
DT	Duties and Taxes
EITI	Extractive Industries Transparency Initiative
EITI-NSB	EITI National Supervisory Board
MTR	Minimum Tax Rate
NSSF	National Social Security Fund
NTPC	New Togolese Phosphate Company
PIT	Personal Income Tax
SC	Statistical Charges
T	Treasury
TI	Taxes on Income
TWC	Togolese Water Company
VAT	Value Added Tax
WT	Withholding Tax

## EXECUTIVE SUMMARY

The First Togo Extractive Industries Transparency Initiative reconciliation covering the period from 1 January to 31 December 2010, was carried out by experts from Moore Stephens in the offices of the Technical Secretariat of EITI Togo from 30 January 2012 to 1 March 2012, in accordance with our Terms of Reference as established in the Request for Proposal (reference N°001/MME/ITIE/CP/ST/2011) and as approved by the Steering Committee.

The assignment was carried out in two stages:

- the first stage was carried out from 30 January to 9 February 2012. It consisted of a review of the reporting templates prepared by the Technical Secretariat, based on the results of the scoping study carried out beforehand, as well as prevailing regulations. During this intervention, we reviewed the draft reporting templates prepared by the Technical Secretariat. At the end of this stage, we proposed a new reporting template and held a training workshop on this and provided reporting instructions for all those involved in the reconciliation process (extractive companies, governmental bodies as well as civil society), as well as the lodgement of said templates;
- the second stage was carried out from 21 February to 1 March 2012 and was dedicated to the reconciliation of payments and receipts declared by the extractive companies and agencies of the Government of Togo. At the end of this stage, a closing meeting took place, during which a memorandum of key observations was presented to the National Coordinator of EITI Togo.

Our reconciliation work was carried out in line with the Terms of Reference included in the proposal request and approved by the Steering Committee.

The assignment consisted of a detailed reconciliation of the payments made by extractive companies, as declared by the same, to revenue data provided by various entities and agencies of the Government of Togo.

The overall objective of the reconciliation exercise was to help the Government of Togo, and the various stakeholders, to determine the contribution that the extractive resources sector is making to the country's economy and social development, and to improve transparency and responsibility in the extractive resources sector.

### Limitations to reconciliation work

- i. The data received from the Directorate General of Customs (DGC) are not exhaustive.

Following our discussion with the Deputy Manager of the Accounts and IT departments, we were informed that, due to technical problems, it was not possible to obtain data concerning payments received during the period from 29 October 2010 to 24 December 2010 from the information system, and, as a result, these could not be reported in the reporting templates.

Furthermore, the DGC did not report amounts received in respect of registration fees on the templates. According to the Deputy Manager of the Accounts and IT departments, these fees are dealt with manually, and the information cannot be extracted from the system.

As a result, we were unable to reconcile differences arising in the aforementioned period, or registration fees reported by the extractive companies.

- ii. Payments made to the DGC by the companies Colas, BB/Eau Vital, Voltic, SNPT and Horizon Oxygène Clever were reported as consolidated figures, rather than being broken down by tax type as had been requested in the reporting guidelines.

As a result, we were unable to reconcile these payments or analyse any residual differences.

- iii. The reporting templates received on behalf of the DGT did not include manual payments received in respect of Local Council taxes. Although these amounts were confirmed following our requests for further information, the DGT was not able to provide receipts to prove these amounts.

The resultant adjustments were made based on data provided by the extractive companies and written confirmation received from the DGT.

- iv. It was not possible to obtain contact details for four (4) companies included in the EITI reconciliation scope (Silverhill Enterprises, Global Merchants, Future Investment and Togo Minerals), hence reporting templates could not be sent to them.

Therefore, cash flows and taxes paid by these companies could not be reconciled within this report.

- v. One private sector company (EBOMAF) failed to submit a reporting template, despite repeated reminders from the Technical Secretariat.

Consequently, revenue flows and taxes relating to this company could not be reconciled within this report.

- vi. The DGC did not submit a reporting template for the company Togo Carrière.

Consequently, revenue flows and taxes paid to Customs and reported by Togo Carrière could not be reconciled within this report.

**Principal findings arising from reconciliation work**

The main findings resulting from our work are as follows:

- 1. Out of a total of twenty-two (22) extractive companies selected for reconciliation:
  - There were four (4) companies to which reporting templates could not be sent due to lack of contact details, namely:
    - Silverhill Enterprises;
    - Total Merchants;
    - Future Investment; and
    - Togo Minerals.
  - one (1) company did not return its reporting template (EBOMAF).
- 2. Out of the seventeen (17) extractive companies that submitted reporting templates, ten (10) failed to submit a form certified by an external auditor, namely:

1. Scantogo Mines	6. Les Aigles
2. Togo Rail	7. CEMAT Industries
3. Togo Carrière	8. BB/Eau Vitale
4. Colas	9. Horizon Oxygène Clever
5. ENCOTRA	10. TWC

- 3. With regard to the government agencies included in the reconciliation scope, only the NSSF complied with the requirement of submitting reporting templates certified by an external auditor. At the date of issue of this report, the certification process by the Court of Auditors is still in progress for the remaining governmental agencies.

4. The extractive companies selected for our reconciliation work includes six (6) companies for which extractive work is considered to be an ancillary activity. As the extractive companies' and government agencies' cost accounting systems do not make it possible to separate out payments made in respect of extractive activity, the reconciliation has been carried out for payments as a whole, without excluding payments deriving from activities considered to be outside the scope of our reconciliation work.

As a result, we are not able to evaluate the contribution made by these companies in respect of extractive activities reliably.

5. Total differences between payments declared by the extractive companies during 2010 and the governmental bodies receiving these payments, prior to our reconciliation work, amounted to **FCFA 1,735,673,974**, as follows:

	Extractive Companies (FCFA)	Government (FCFA)	Difference (FCFA)	%
<b>Total payments declared</b>	<b>33,676,702,207</b>	<b>31,941,028,233</b>	<b>1,735,673,974</b>	<b>5.4%</b>

6. Following our reconciliation work, the remaining net differences amounted to **FCFA 1,705,251,288**, or 5.7% of the total amount declared by the governmental bodies:

	Extractive Companies (FCFA)	Government (FCFA)	Difference (FCFA)	%
<b>Total payments declared</b>	<b>31,468,967,909</b>	<b>29,763,716,621</b>	<b>1,705,251,288</b>	<b>5.7%</b>

The types of adjustments made during our reconciliation work, together with their values, are detailed in sub-section 4.3 of this report.

7. The unreconciled difference of **FCFA 1,705,251,288** can be broken down as follows:

	Unreconciled discrepancies (FCFA)
Reporting Templates not submitted by extractive companies	(1,346,250)
Reporting Templates not submitted by governmental bodies	19,955,666
Discrepancies in Reporting Templates received	1,686,641,872
<b>Total differences</b>	<b>1,705,251,288</b>

Discrepancies arising from Reporting Templates received are detailed in section 5.

8. The extractive companies were requested to report in-kind payments, infrastructure provision or other voluntary contributions made during 2010. These figures are reported as unilateral company disclosures and have not been verified or reconciled. A total of **FCFA 1,151,091,437** was declared, as detailed below:

	Total payments reported (FCFA)
NTPC	1,103,651,437
WACEM	26,720,000
Horizon Oxygène Clever Sarl	14,050,000
ENCOTRA	6,670,000
<b>Total social payments</b>	<b>1,151,091,437</b>

A breakdown of these contributions by type and by beneficiary is included in Annex 5.



Tim Woodward  
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## 1. INTRODUCTION

### 1.1 Extractive Industries Transparency Initiative (EITI)

#### 1.1.1 Creation

The Extractive Industries Transparency Initiative (EITI) was first announced at the World Summit for Sustainable Development in Johannesburg in 2002 (the 'Earth Summit 2002'), and officially launched in London in 2003. It was founded on the recognition that, while oil, gas and minerals can help to raise living standards across the world, in countries where these resources are not managed appropriately, this may often lead to corruption and conflict and, for many people, a lower quality of life.

Accordingly, the initiative aims for improved transparency through companies in the mining sector publishing their tax payments and government organisations disclosing amounts received from those companies. EITI therefore promotes better governance in countries rich in oil, gas and mineral resources, and seeks to reduce the risk of diversion or misappropriation of funds generated by the development of a country's extractive industries. It works through the joint cooperation of governments, private sector companies, civil society groups, investors and international organizations.

There is a formal structure for the admission of countries into the EITI, in which governments wishing to obtain membership have to meet five requirements:

1. The government is required to issue an unequivocal public statement of its intention to implement the EITI;
2. The government is required to commit to work with civil society and companies on the implementation of the EITI ;
3. The government is required to appoint a senior individual to lead on the implementation of the EITI ;
4. The government is required to establish a multi-stakeholder group to oversee the implementation of the EITI; and
5. The multi-stakeholder group, in consultation with key EITI stakeholders, should agree and publish a fully costed work plan, containing measurable targets, and a timetable for implementation and incorporating an assessment of capacity constraints.

Once accepted as an EITI candidate, the country then works towards becoming fully EITI-compliant. This involves the appointment of a "credible, independent" administrator, and the disclosure and dissemination of information on payments from oil, gas and mining companies to the government in compliance with standards (subject to the checks built into the process to ensure that this information is comprehensive, comprehensible and accurate). Candidate countries are given a reasonable timescale (usually thirty months) to become fully compliant with EITI standards.

Currently, 62 of the world's largest oil, gas and mining companies support and actively participate in the EITI process, through international commitments and industry associations. Moreover, the EITI has won the support of over 80 global investment institutions, collectively managing over 16 billion US dollars.

#### 1.1.2 General principles

The EITI establishes an international standard allowing companies to publish how much they pay and governments to disclose how much they receive.

3.5 billion people live in countries rich in oil, gas and minerals. With good governance the exploitation of these resources can generate large revenues to foster growth and reduce poverty. However, when governance is weak, it may result in poverty, corruption, and conflict. The EITI aims to strengthen governance by improving transparency and accountability in the extractive sector.



The aim of the initiative is to encourage improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining.

The EITI is a coalition of governments, companies, civil society groups, investors and international organisations. In 2005, the EITI carried out a lengthy and exhaustive consultation process so as to map out the future of the initiative. This was carried out by the International Advisory Group (IAG), which produced a report containing the EITI's governance structure, agreed methodology and future direction.

The EITI has a robust yet flexible methodology that ensures a global standard is maintained throughout the different implementing countries. The EITI Board and the International Secretariat are the guarantors of this methodology. Implementation itself, however, is the responsibility of each individual country. The EITI, in a nutshell, is a globally developed standard that promotes revenue transparency at the local level.

The EITI Source Book provides an illustrative guide to assist countries wishing to implement the initiative, and companies and other stakeholders wishing to support implementation. The EITI rules, including the validation guidelines, establish the methodology countries need to follow to become fully compliant with the EITI.

### 1.1.3 Advantages

Implementation of the EITI can provide a wide range of benefits:

- Countries rich in natural resources such as oil, gas, and minerals have tended to under-perform economically, have a higher incidence of conflict, and suffer from poor governance. These effects are not inevitable and it is hoped that by encouraging greater transparency in countries rich in these resources, some of the potential negative impacts can be mitigated.
- Benefits for implementing countries include an improved investment climate by providing a clear signal to investors and international financial institutions that the government is committed to greater transparency. The EITI also assists in strengthening accountability and good governance, as well as promoting greater economic and political stability. This, in turn, can contribute to the prevention of conflict based around the oil, mining and gas sectors.
- Benefits to companies and investors centre on mitigating political and reputational risks. Political instability caused by opaque governance is a clear threat to investment. In extractive industries, where investments are capital-intensive and dependent on long-term stability to generate returns, reducing such instability is beneficial for business. Transparency of payments made to a government can also help to demonstrate the contribution that their investment makes to a country.
- Benefits to civil society come from increasing the amount of information in the public domain about the revenues that governments manage on behalf of citizens, thereby making governments more accountable.

### 1.1.4 National implementation

To become an EITI candidate, the applicant country must meet the five sign-up requirements. Once these have been met, the implementation of the EITI involves a range of activities to strengthen transparency of revenues from natural resources. These activities are documented as part of the countries' action plans.

To become – and remain – EITI-compliant, or to maintain its candidate status, the country must complete the EITI's validation process. Validation, as an international norm, is a fundamental element of the EITI. It allows for an independent valuation of the progress made by implementing countries in relation to the EITI, and of the measures that they have to adapt in order to develop as quickly and successfully as possible. This assessment is carried out by an independent reviewer, following the methodology determined by the EITI rules. The EITI's Administrative Council supervises the validation process and reviews the validation reports.

If, in the EITI International Board's judgement, a country has met all the validation criteria, that country will be recognised as complying with the EITI's requirements. Should the validation report show that a country has made progress but does not meet all the EITI's criteria, that country will continue to be a candidate. If the validation does not indicate any significant progress, the EITI International Board can revoke a country's candidate status.

Currently, several countries, including the Republic of Togo, are subject to the validation process.

## **1.2 The EITI in Togo**

### **1.2.1 Implementation of the EITI in Togo**

Togo is among Africa's largest phosphate producers. Togo also possesses significant reserves of iron ore and extensive limestone and marble deposits.

Togo's foremost concern is to maximise the contribution of the mining and water sectors to sustainable economic growth and poverty reduction. The government is thus seeking sound and effective management of Togo's natural resource sector, and therefore announced its adherence to the EITI in 2009.

EITI Togo has been implemented in accordance with the provisions of decree n°2010-024/PR, dated 30 March 2010, covering the set-up, allocations, composition, organisation and operation of the EITI governance bodies in Togo.

The EITI Board designated Togo as an EITI Candidate country on 19 October 2010. In accordance with the transitional procedures on entry agreed by the Board in June 2011, Togo's deadline to complete validation has been extended to 18 April 2013.

This report is issued in the context of the publication of the First EITI Togo Report in accordance with requirements 9 to 18 of the EITI Rules (November 2011 Edition).

### **1.2.2 EITI governance in Togo**

On 30 March 2010, three EITI organs were created by presidential decree: a Supervisory Committee (CNS-ITIE), chaired by the Prime Minister, a Steering Committee chaired by the Minister of Energy and Mines and a Permanent Technical Secretariat. In addition, a National EITI Coordinator was appointed by presidential decree on 15 April 2010.

The Supervisory Committee (CNS-ITIE) is dedicated to the overall EITI strategy, both political and strategic, and to supervision of the implementation of the EITI process, as well as the evaluation of its impact on sustainable development and alleviation of poverty. The Committee has a tripartite structure including representatives of the government, the private sector and civil society.

The Steering Committee is in charge of the implementation of the policies and strategies established by the Supervisory Committee. Within this framework, the Steering Committee is in charge of implementation and supervision in line with participative procedures from EITI Togo, in order to guarantee that extractive industries make an optimal contribution to the economic development of the country and the reduction of poverty. The Steering Committee also has a tripartite structure comprising representatives of the government, the private sector and civil society.

The Technical Secretariat is in charge of the implementation of decisions made by the Supervisory Committee and the Steering Committee, and the day-to-day running of implementation activities for the EITI process in Togo.

