

# Board decision on the second Validation of Afghanistan

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## The Board's decision

The Board came to the following decision:

The EITI Board agrees that Afghanistan has fully addressed 14 of the 19 corrective actions from the country's first Validation. Consequently, Afghanistan has made meaningful progress overall in implementing the 2019 EITI Standard.

The Board congratulates Afghanistan for addressing shortcoming identified in its first Validation through systematic disclosures of data delivered by concrete reforms in government systems. The EITI is recognised as addressing issues of national strategic importance in a volatile context. Afghanistan is congratulated for improving both the comprehensiveness and accessibility of license-level information on fiscal terms, licensing, production, non-tax payments to government and beneficial ownership, now accessible in near real time through the Ministry of Mines and Petroleum's Transparency Portal. The publication of the statutory rules governing state-owned enterprises' financial relations with the state and their financial statements for 2016-2017, audited for the first time by the Supreme Audit Office (SAO), is welcomed as a key step forward in supporting corporatisation plans for the two companies. The Board commends Afghanistan for using the EITI to drive tangible reforms both in its legal and regulatory environment and in implementation of key reforms, such as the ring-fencing of tax liabilities for extractive projects.

The Board acknowledges the significant support to EITI implementation provided by development partners and encourages the government to ensure implementation is sustainable over the long term. Afghanistan is encouraged to ensure that EITI implementation is institutionalised in government and company systems through the transition to systematic disclosures of data required by the EITI Standard. The Board encourages Afghanistan to address concerns over general weaknesses in the reliability of government data disclosures. The AEITI Secretariat has driven outreach and dissemination efforts on behalf of the MSG. However, the EITI's contribution to public debate has not been commensurate with its contribution to reforms in government systems. The Board encourages each constituency to complete the renewal of their representation on the MSG, with a view to ensuring active and effective participation by MSG members in all aspects of EITI implementation, including outreach, dissemination and use of EITI data.

The Board takes note of Afghanistan's plans to transition to systematic disclosures of EITI data through government and company systems, through its participation in the EITI's pilot on alternative approaches to EITI reporting. The Board encourages the government and MSG to pursue efforts to ensure comprehensive transparency of transactions related to state-owned enterprises, social and environmental expenditures and quasi-fiscal expenditures. The Board encourages stakeholders to make more proactive use of EITI data as a means of translating this emerging transparency into accountability in the governance of the extractive industries.

The Board has determined that Afghanistan will have **18 months** before a third Validation, i.e. until 28 April 2022, to carry out corrective actions regarding MSG oversight (Requirement 1.4), SOE transactions (Requirement 4.5), social and environmental expenditures (Requirement 6.1), quasi-fiscal expenditures (Requirement 6.2) and public debate (Requirement 7.1). Failure to achieve satisfactory progress in the third Validation will result in temporary suspension in accordance with Article 6 of the EITI Standard. In accordance with the EITI Standard, Afghanistan's MSG may request an extension of this timeframe or request that Validation commences earlier than scheduled.

## Background

Afghanistan was admitted as an EITI Candidate in February 2010. The first Validation of Afghanistan against the EITI Standard commenced on 1 November 2017. On 19 January 2019, the EITI Board found that Afghanistan had made an inadequate progress in implementing the 2016 EITI Standard. Nineteen corrective actions were identified by the Board, pertaining to the following requirements:

1. Government engagement (Requirement 1.1),
2. MSG governance (Requirement 1.4),
3. Work plan (Requirement 1.5),
4. License allocations (Requirement 2.2),
5. License register(s) (Requirement 2.3),
6. State participation (Requirement 2.6),
7. Production data (Requirement 3.2),
8. Export data (Requirement 3.3),
9. Data comprehensiveness (Requirement 4.1),
10. Transportation revenues (Requirement 4.4),
11. SOE transactions (Requirement 4.5),
12. Data quality (Requirement 4.9),
13. Distribution of revenues (Requirement 5.1),
14. Social expenditures (Requirement 6.1),
15. SOE quasi-fiscal expenditures (Requirement 6.2),
16. Economic contribution (Requirement 6.3),
17. Public debate (Requirement 7.1),
18. Follow-up on recommendations (Requirement 7.3),
19. Outcomes and impact of implementation (Requirement 7.4).

The Board asked Afghanistan to address these corrective actions to be assessed in a second Validation commencing on 18 July 2020. Upon request from the AEITI MSG, the Board brought forward the commencement date for Afghanistan's second Validation to 1 July 2020.

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

- The MSG met six times in 2017, six times in 2018, nine times in 2019 and two times in the first half of 2020.
- AEITI held two one day workshops at the Ministry of Mines and Petroleum on 15 and 22 January 2019.
- On 12 March 2019, AEITI held a workshop for journalists and civil society representatives on the new Transparency Portal at the Ministry of Mines and Petroleum (MoMP) in Kabul.
- On 5 May 2019, AEITI held a workshop for 50 representatives from the three constituencies to agree improvements to EITI implementation, with support from GiZ-MinGov.
- The 6th Afghanistan EITI Report, covering 1395-1396 (21 December 2015 to 20 December 2017 - 2016-17) was published on 30 June 2019.
- On 20 July 2019, AEITI held a one-day capacity-building workshop for MSG members, supported by GiZ-MinGov.
- On 31 October 2019, AEITI held a one-day workshop for the members of Environment and Natural Resources Commission of the Lower House of the National Assembly to raise awareness about EITI implementation.
- Afghanistan EITI held a pre-Validation self-assessment workshop with the International

- Secretariat and the World Bank in Dubai, United Arab Emirates, on 4-7 November 2019.
- On 1-2 December 2019, AEITI held an outreach workshop for 45 civil society representatives in Kabul, supported by GiZ-MinGov.
  - In January 2020, the MOMP website published the 1395-1396 (2016-17) financial statements of Afghan Gas Enterprise and North Coal Enterprise, audited by the Supreme Audit Office for the first time, as well as related documentation.
  - In February 2020, the industry and civil society constituencies agreed their respective MSG member election procedures and published them on the AEITI website.
  - Afghanistan EITI published an addendum (and appendices) to the 6th EITI Report on 19 May 2020, addressing weaknesses identified in the MSG’s November 2019 pre-Validation workshop.
  - On 14 September 2020, the MSG submitted comments on the draft assessment that highlighted the publication of new information on the licensing process in 1395-1396 (2016-2017) and on quasi-fiscal subsidised loans by SOEs and quasi-fiscal subsidies on natural gas.

Afghanistan’s second Validation commenced on 1 July 2020. The EITI International Secretariat has assessed the progress made in addressing the 19 corrective actions established by the EITI Board following Afghanistan’s first Validation in 2018. Progress in implementing Requirement 2.5 on beneficial ownership, as well as new Requirements 6.4 and 7.2 of the 2019 EITI Standard were also assessed. **The International Secretariat’s assessment is that Afghanistan has fully addressed 14 of the 19 corrective actions and has made “meaningful progress” with considerable improvements in addressing the remaining five corrective actions.**

The draft assessment was sent to the Afghanistan EITI MSG on 21 August 2020. Following comments from the MSG submitted on 14 September 2020, the assessment was finalised for consideration by the EITI Board.

## Scorecard

EITI Requirements		Level of Progress					Direction 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)				█		→
Licenses and contracts	Legal framework (#2.1)				█		=
	Contract and licence allocations (#2.2)				█		→
	Register of licenses (#2.3)					█	→
	Contracts (#2.4)					█	=
	Beneficial ownership (#2.5)					█	

EITI Requirements		Level of Progress					Direction of Progress	
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond		
Monitoring production	Exploration data (#3.1)				█		=	
	Production data (#3.2)				█		→	
	Export data (#3.3)				█		→	
Revenue collection	Comprehensiveness (#4.1)				█		→	
	In-kind revenues (#4.2)							=
	Infrastructure provisions and barter arrangements (#4.3)							=
	Transportation revenues (#4.4)							→
	SOE transactions (#4.5)			█			→	
	Subnational payments (#4.6)							=
	Level of disaggregation (#4.7)				█		=	
	Data timeliness (#4.8)				█		=	
	Data quality and assurance (#4.9)				█		→	
Revenue allocation	Distribution of revenues (#5.1)				█		→	
	Subnational transfers (#5.2)							=
	Revenue management and expenditures (#5.3)							=
Socio-economic spending	Mandatory social expenditures (#6.1)			█			→	
	SOE quasi-fiscal expenditures (#6.2)			█			→	
	Economic contribution (#6.3)				█		→	
	Environmental impact (#6.4)							
Outcomes and impact	Public debate (#7.1)			█			→	
	Data accessibility and open data (#7.2)				█			
	Follow up on recommendations (#7.3)				█		→	
	Review of outcomes and impact of implementation (#7.4)				█		→	
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.

**Outstanding progress (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.

### Direction of progress

- = No change in performance since the last Validation.
- ← The country is performing worse than in the last Validation.
- The country is performing better than in the last Validation.

## Corrective actions

The EITI Board agreed the following corrective actions to be undertaken by Afghanistan. Progress in addressing these corrective actions will be assessed in a third Validation commencing on **28 April 2022**:

1. In accordance with **Requirement 1.4.a.ii**, Afghanistan should ensure that the renewal of MSG members in practice follows the nominations procedures agreed by each constituency, in line with open, fair and transparent procedures. In accordance with Requirement 1.4.b.iii, MSG members should liaise with their constituency groups.
2. In accordance with **Requirement 4.5**, Afghanistan should ensure that all material SOE transfers to government entities, including their transfers of a share of their net profits to the Ministry of Finance, should be comprehensively and reliably disclosed.
3. In accordance with **Requirement 6.1**, Afghanistan should undertake a comprehensive review of all mandatory social expenditures and environmental payments mandated by law or contract. Afghanistan should ensure that public disclosures of mandatory social expenditures and environmental payments in future EITI Reports be disaggregated between cash and in-kind expenditures, by type of payment and beneficiary, clarifying the name and function of any non-government (third-party) beneficiaries. Afghanistan may wish to ensure that mandatory social expenditure requirements are more clearly codified in mining contracts with set timeframes to ensure more efficient monitoring and oversight.
4. In accordance with **Requirement 6.2**, Afghanistan should undertake a comprehensive review of all expenditures funded by extractives revenues that are not transferred to the Treasury that could be considered quasi-fiscal, particularly related to any subsidies on the sale of coal and natural gas as well as subsidised lending by the SOEs. Afghanistan should develop a reporting process with a view to achieving a level of transparency on quasi-fiscal expenditures

that is commensurate with other payments and revenue streams.

5. In accordance with **Requirement 7.1**, Afghanistan should ensure that outreach events, whether organised by government, civil society or companies, are undertaken to facilitate dialogue and spur debate about the governance of extractive resources, building on EITI disclosures across the country in a socially inclusive manner.