Afghanistan Extractive Industries Transparency Initiative

د افغانستان د استخراجي صنايعو د شفافيت نوښت

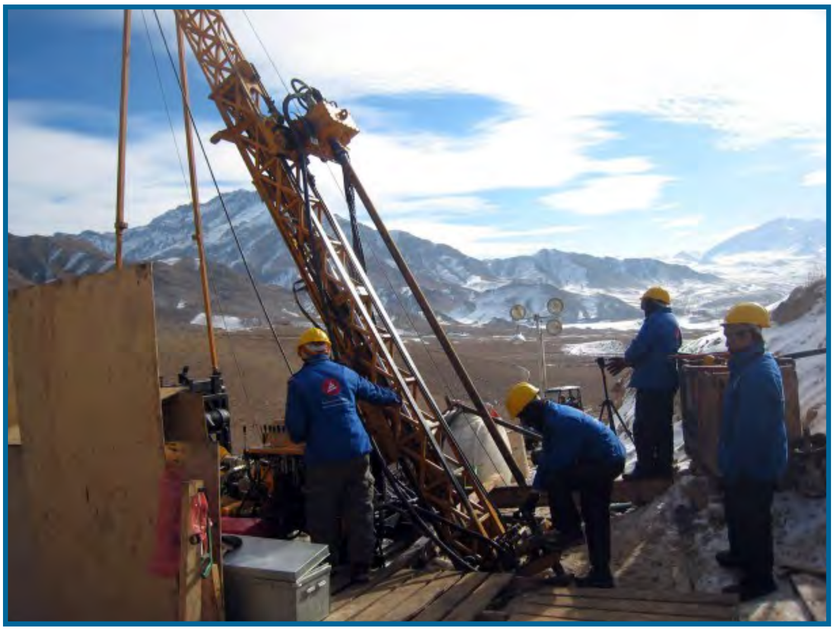
Inception Report and Fourth Reconciliation Report

Hart Group, UK

In association with

Talal Abu-Ghazaleh & Co. Consulting, Jordan

FINAL REPORT



Hart Group

89 High Street
Thame
Oxfordshire
OX9 3EH
United Kingdom

Phone:
+44-1844-218836

E-mail:
chrisnurse@hart-group.com

Web:
www.hart-group.com
www.hart-group-eiti.co.uk

4th February 2016

89 High Street
Thame
Oxfordshire OX9 3EH
England

Tel: 01844-218836
www.hart-nurse.co.uk

Hart Nurse
Chartered Accountants

AEITI Multi Stakeholder Group
c/o Ministry of Finance
Pakhtoonistan Watt
Kabul
Afghanistan

Dear Sirs,

Hart Nurse Limited, in association with Talal Abu-Ghazaleh Consultants, has been appointed by the Government of the Islamic Republic of Afghanistan, acting through the Ministry of Mines and Petroleum, to produce an EITI Report on payments directly or indirectly made by participating extractive companies involved in upstream and associated activities to the GoIRA and revenues reported as received by the GoIRA agencies from those companies for the fiscal periods 1391 (March to December 2012) and 1392 (December 2012 to December 2013), ("Engagement").

The Engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures performed were those set out in the Terms of Reference appended to this report, except where stated otherwise in this report including its appendices.

We set out our findings in the following report including its appendices. Because the procedures were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the transactions beyond the explicit statements set out in this report. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our report is solely for informing the AEITI Multi Stakeholder Group on the matters set out in the Terms of Reference and is not to be used for any other purpose.

The report relates only to the subject matter specifically set out herein and does not extend to any financial statements of any entity taken as a whole.

CH Nurse
Director
Hart Nurse Limited

4 February 2016

TABLE OF CONTENTS

Page

ABBREVIATIONS

AEITI	Afghanistan Extractive Industries Transparency Initiative	NEPA	National Environmental Protection Agency
AFS	Afghanis	PSC	Production Sharing Contract
CSR	Corporate Social Responsibility	QEIT	Qualifying Extractive Industry Taxpayer
EITI	Extractive Industries Transparency Initiative	SOE	State Owned Enterprise
FP	Fiscal Period	STO	Small Taxpayers Office
GDP	Gross Domestic Product	TIN	Taxpayer Identification Number
GIZ	Deutsche **Gesellschaft für Internationale Zusammenarbeit**	TOR	Terms of Reference
GOIRA	Government of the Islamic Republic of Afghanistan	UNDP	United Nations Development Programme
JV	Joint Venture	USD	United States Dollar(s)
LTO	Large Taxpayers Office	USGS	US Geological Survey
MOF	Ministry of Finance	WHT	Withholding Tax
MOMP	Ministry of Mines and Petroleum		
MOU	Memorandum of Understanding		
MSG	Multi stakeholder group		
mt	Metric tonne(s)		
MTO	Medium Taxpayers Office		

1 INTRODUCTION

This is the Fourth Afghanistan EITI Report, which covers the two fiscal periods 1391 (21st March - 20th December 2012) and 1392 (21st December 2012 – 20th December 2013).

The report is intended for the use of the AEITI MSG for the purpose of that initiative and is not to be relied upon by other parties.

The report includes its Appendices, which are provided separately.

1.1 OBJECTIVE

The objectives of the assignment are the production of a scoping study to inform the combined 1391 (Mar-Dec 2012) and 1392 (2013) AEITI report, provision of training and guidance to reporting entities and production of the Fourth AEITI Report for the fiscal periods 1391 (Mar-Dec 2012) and 1392 (2013), in accordance with the TOR (see Appendices: 10.2).

1.2 STRUCTURE OF THE REPORT

The report contains:-

- Report of the Independent Administrator to the AEITI MSG
- Introduction
- Executive Summary
- The Extractive Industries in Afghanistan
- Overview of Flows Reported and Reporting Entities
- Approach, Methodology and Work Done
- Results of the Reconciliation
- Other information
    - Production Declared by Reporting Entities
    - Social Expenditures and Infrastructure Provisions
    - Transportation Tariffs
    - Beneficial Ownership
    - State Owned Enterprises
- Recommendations
- Appendices

Full details of amounts reported initially, adjustments made and the reconciled flows analysed by type of financial / in kind flow are reported together with other supporting information in the appendices.

1.3 CALENDAR

A note on the calendar convention used in this report.

The Afghan fiscal period 1391 runs for 9 months from 20th March 2012 to 20th December 2012. The Afghan fiscal period 1392 runs for 12 months from 21st December 2012 to 20th December 2013.

For ease of reference, these are referred to throughout the report as

- 1391 (Mar-Dec 2012); and
- 1392 (2013)

Other dates are quoted in the Gregorian calendar.

1.4 ACKNOWLEDGEMENTS

We would like to express our sincere thanks to the AEITI MSG for their active participation in discussions prior to the reconciliation; and to the World Bank and GIZ for facilitating training workshops; and to the International Secretariat for their assistance and guidance; and to Mr Mahmood Anwari and the AEITI Secretariat, who have assisted us in obtaining replies from the Government and participating companies from the extractive industries, and sending and receiving official confirmation letters to/from these parties.

2 EXECUTIVE SUMMARY

Afghanistan is a country in transition. There are many initiatives in train to develop capacity throughout the country. For example, the mining cadastre is undergoing review and re-organisation; the Supreme Audit Office, which has been re-admitted to international audit institutions, is rebuilding the capacity of its staff with a project funded by the World Bank whereby an international firm of accountants and auditors is providing technical support to enable the SAO to carry out audit functions in accordance with international auditing standards; and the implementation of EITI provides a further area of focus for development of institutions in the country.

Consequently, at the present time the country faces a number of difficult challenges to meet the requirements of the EITI Standard. The security background means that central government is hampered in its ability to manage and enforce revenue collection in accordance with its laws. The value of revenues collected at a sub-national level – both on behalf of central government and for sub-national government – is hard to assess. There are numerous reports of local “authorities” collecting their own revenues without reference to national legislation. Levels of computerisation throughout the country, including in central government departments, are low and internet penetration is low.

There are no accountancy bodies in the country and no requirements that company accounts are subject to independent audit, and there is a very limited accounting and audit profession in Afghanistan, due to an acute shortage of qualified professionals. There is no recognised body that represents the profession in Afghanistan and no established standard setting body for accounting or auditing, as such there are no enforceable accounting or auditing standards for the private sector.

Against this background, the preparation of an EITI report under the EITI Standard is demanding. All this said, production of the current report has been useful as a means of identifying what can be done and areas where further work is required; the willingness of stakeholders to participate in the process has been encouraging. The implementation of EITI is important institutionally both to identify and explore areas which may need attention and also to provide an accountable focus for making improvements in governance and transparency.

2.1 GOVERNMENT RECEIPTS

2.1.1 TOTAL GOVERNMENT RECEIPTS

Total government receipts from the sector (including companies not reporting for EITI) were reported by government as follows:-

AFS millions	1391 (9 mo)	1392
MOF - Revenue	117.5	280.2
MOF - Customs	9.1	4.8
MOF - SOE	1,247.7	383.1
MOMP	2,567.4	581.3
Total	**3,941.8**	**1,249.4**
USD equivalent	**$58 million**	**$18.5 million**

Table 2.1

AFS converted at the rate of exchange on 31 December 2015 (USD 1: AFS 68.37)

2.2 SCOPE OF INDEPENDENT ADMINISTRATOR'S WORK

Hart Nurse Ltd. in association with Talal Abu-Ghazaleh & Co. Consulting, (together "the Administrator") was required to undertake the work set out in the TOR[1] for the Engagement. The reconciliation has been carried out on a cash accounting basis.

If there are material receipts or payments omitted from the reporting templates by both the paying and receiving entities, our work would not be sufficient to detect them. Any such receipts or payments would not therefore be included in our report. We relied on information provided by government agencies and public sources in connection with advising on the reconciliation scope and did not audit the data or check its completeness.

In conducting our work, we have relied upon the information and explanations obtained from Reporting Entities.

Our report incorporates information received up to 26th January 2016. Any information received after this date is not, therefore, included in our report.

2.3 SUMMARY OF RESULTS FROM THE RECONCILIATION

Total receipts, after reconciliation, from reporting entities are set out in Tables 2.2 and 2.3 (see also section 6).

1391 (9 mo)

	Government AFS millions	Companies AFS millions	Difference AFS millions
Initially reported	4,007.8	4,238.2	-230.4
Adjustments	244.1	11.1	233.0
After reconciliation	4,251.9	4,249.3	2.6

Table 2.2

1392 (12 mo)

	Government AFS millions	Companies AFS millions	Difference AFS millions
Initially reported	1,231.0	1,981.0	-750.0
Adjustments	797.2	25.1	772.1
After reconciliation	2,028.2	2,006.1	22.1

Table 2.3

Comment is made on the unresolved discrepancies in section 2.4.8.

[1] Appendices: 10.2

2.4 COMPANY PAYMENTS

Reconciliation results by company are summarised and described in Section 6; and are set out in detail in Appendices: 10.4.

2.5 KEY FINDINGS

On 10 April 2013, the EITI Board agreed that Afghanistan had made meaningful progress in implementing the EITI but that compliance with the EITI Requirements had not been achieved. The Board identified a number of corrective actions necessary to achieve compliance.

In November 2014, the EITI Secretariat concluded a review of progress made on each corrective action, concluding that further work was required before the actions could be considered complete.

In this section, we summarise the key findings from our work. Further details are given in Section 5.4 and our recommendations for improvement are contained in Section 8.

2.5.1 CHALLENGES TO MEETING EITI REQUIREMENTS

There are several areas where there is insufficient capacity to be confident that information provided in good faith for EITI purposes is reliable; to make improvements, these areas will require sustained support over a period of time. As noted below, EITI implementation can form an important component in assisting and monitoring improvements in capacity.

2.5.1.1 Government records

2.5.1.1.1 Financial records

Records in MOF and MOMP are kept manually. Considerable effort was required to produce reports of receipts and other information for the EITI report, and there were differences between information contained in reports which should have been consistent. Information on total government receipts required several iterations between the AEITI Secretariat and the Ministries, and further discussion during the training workshops before the version used for the materiality determination was finalised.

Records in provincial government offices are also manual and visits by the AEITI Secretariat and our own staff noted that the systems did not appear to be robust.

See further section 5.4.3 and recommendations in section 8.1.2.

2.5.1.1.2 Cadastre

The licensing records maintained by the central cadastre were not up to date, in the opinion of the consultant working to improve the cadastre, and filing systems were inadequate; it was also noted that there was confusion in issue of licences because they are issued both centrally and at sub national level (see more detailed discussion in section 5.4.3.3).

Appropriate administrative and financial systems – whether manual or computerised - are essential for production of reliable and complete information on the extractive sector; and this area needs to be reviewed.

See further section 5.4.2.2 and our recommendations in section 8.1.3.

2.5.1.2 Assurance

The assurance environment in Afghanistan is weak. Steps have been taken to improve government audit capability, but further work is needed. There is no standard setting body in Afghanistan for either audit or accountancy, and there are few qualified staff at present to implement any standards. Capability and practice in the private sector are weak and there are serious challenges to the achievement of transparency.

2.5.1.2.1 Government audit

The Transitional Government of Afghanistan has awarded a project to an international firm of accountants and auditors to rebuild the capacity of CAO staff. This project is funded by the World Bank and provides technical support to the CAO to enable it to carry out audit functions in accordance with international auditing standards.

See further sections 5.6.2 (government audit) and 5.6.3 (SOE audit), and our recommendations in section 8.2.1.

2.5.1.2.2 Company audits

Audit capability is severely limited at national level and audit to international standards is currently effectively inaccessible to medium and smaller scale companies, on grounds of cost, financial management capability and linguistic constraints.

There is no requirement under Afghan law for extractive companies to produce audited accounts. The PSCs do not specify the basis for any independent audit (in particular the use of International Standards on Auditing).

The MSG requirement was for major companies – explained by the AEITI Secretariat as the oil companies and MMC-Aynak – to provide audited accounts for each year. We requested all companies to provide audited accounts along with the templates or to state that they did not prepare them; however, companies did not provide copies and at a late stage in the reporting process required specific letters of authority from MOMP authorising the release of accounts to us.

Details of the audited accounts provided to us are set out in section 5.6.5.4. See also our recommendations in section 8.2.2.

2.5.2 COMPLETENESS AND ACCURACY OF DATA

2.5.2.1 Inclusion of entities receiving or making material payments

2.5.2.1.1 Preparation for reconciliation

During discussions with stakeholders to examine the scope of the reconciliation, we compared the MOMP list of receipts from extractive companies with published MOMP information on licences; we noted various differences, and were informed that the licence information was not reliable (see comments on the cadastre section 5.4.3.3).

We noted that the MOMP receipts were substantially related to coal producers and oil companies, together with SOEs, but our research into the extractive sector suggested that there are extractive companies which were not included on the list – e.g. gemstone producers and possibly precious metal miners. For example, the Afghan Emerald Company was identified in the AEITI baseline report and mentioned in the EITI Validation Report, but was not included on the list of companies by MOMP.

In discussion with stakeholders from government, companies and civil society, it was agreed that there were producers not included on the lists, but that there was inadequate or no information on the scale of their operations or the materiality of any payments to government. It was also noted that companies might make payments to authorities locally which did not appear in the national accounts, due to weak control over the areas concerned (see Appendices: 10.7 for press reports related to this topic).

It was ultimately agreed that the companies on the MOMP list of receipts should be used as the basis for the materiality determination and for companies to be included in the EITI reconciliation.

MOF does not maintain a list of companies from the extractive sector, and was only able to confirm receipts from companies identified from the MOMP listing.

2.5.2.1.2 During the reconciliation

During the reconciliation, we discovered that Dragon Oil has two separate companies in Afghanistan – Dragon Oil (Sanduqli) Ltd and Dragon Oil (Mazar-i-Sharif) Ltd. MOMP reported payments as if Dragon Oil was a single company, but from the company returns we identified the two separate companies.

We also noted that Ghazanfar Investments Limited, one of the parties to the PSC with Dragon Oil and Turkish Petroleum, was not on the original list of companies provided by MOMP. Following enquiries, we were given a receipt from MOMP recording that Ghazanfar had paid bonuses amounting to $400,000 in 1392 (2013). This exceeds the materiality limit set by the MSG and we have asked MOMP for an explanation for the omission, along with confirmation from MOMP and MOF whether any other payments were received from Ghazanfar. MOMP has responded that no other payments were received; the response from MOF is awaited at the time of writing.

The AEITI MSG should follow up why Ghazanfar was incorrectly omitted from the MOMP list.

2.5.2.1.3 End note

There is fuller discussion of the materiality determination and issues in section 5.5.

2.5.3 PRODUCTION REPORTING

Production data was requested from MOMP during the assessment of scope, and was also requested from government and companies by way of a template as part of the reconciliation. MOMP provided different figures for reporting companies in the initial returns and during the reconciliation; and the SOE department in MOMP has not returned production figures for Northern Coal and Afghan Gas; the latter company did not return any production information for the reconciliation. Several companies also failed to return production information.

2.5.4 GOVERNMENT AND COMPANY PARTICIPATION

Provision of information by government ministries was slow and required follow up; this can probably be attributed to the effort required to produce information from manual systems.

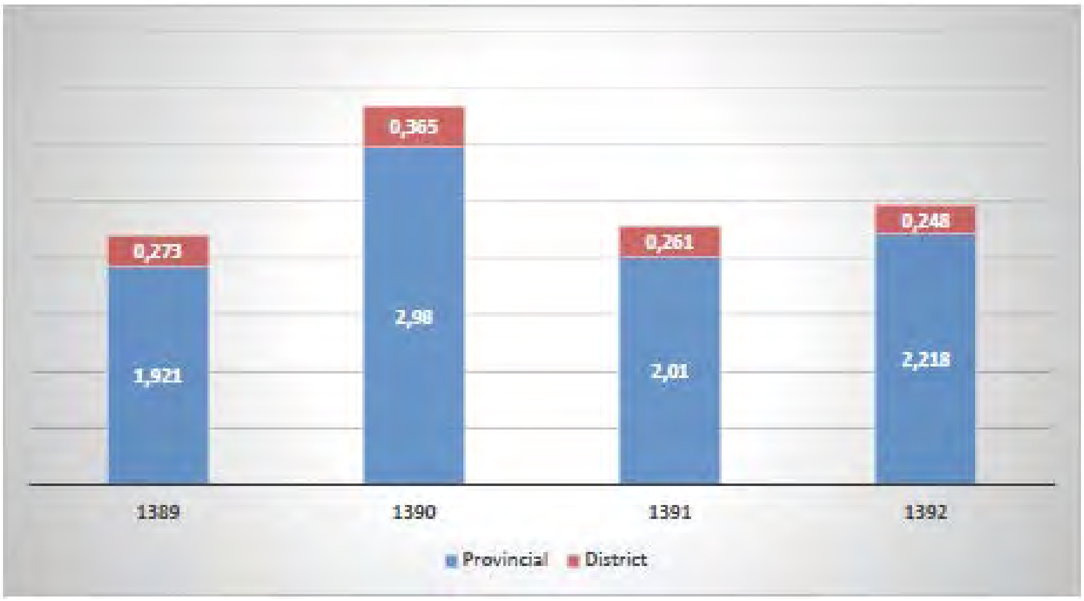
There were various government departments involved in the data gathering. For tax collection, private companies were generally dealt with by the MOF-LTO, although both MOF-LTO and MOF-MTO responded in respect of CNPCI-Watan. Two companies (Turkish Petroleum and Dragon Oil Mazar-i-Sharif) made payments to the provincial office of MOF-LTO in Mazar-i-Sharif province and information concerning these companies was not available in the Kabul offices of the MOF, but queries had to be resolved by a visit to the provincial office.

The reasons for the separation of responsibilities are not clear and are liable to lead to inaccurate reporting of information, especially when systems are manual and weak, and to lack of accountability; and the arrangement is not conducive to reliable collection by the government of revenues to which it is entitled.

On occasion, the formal assistance of the AEITI Secretariat was required to obtain information in areas which form a normal part of an EITI report. This is the fourth EITI report produced by Afghanistan, and there should be no need for such formal intervention on a well trodden path.

2.5.5 SUB NATIONAL FLOWS

The MSG decided not to include sub national flows in the current report. According to a report, “Municipalities in Afghanistan”, prepared in June 2014 by Abdul Bagi Popal, Head of IDLG's Municipalities Directorate[2], sub national revenues of some AFS 2 billion (c US$ 29 million) were collected during each financial period covered by the current EITI Report, as shown in the following table, extracted from the report.



Revenues generated by the provincial capitals and district municipalities 1389-92 in billion AFN as reported to GDMA (AFS billions)

The report includes a summary of the revenue types administered by municipal governments (not quantified), which indicates that they are generally not specific to the extractive sector.

[2] See section 5.5.3 for further comment. The Report is included at Appendices: 10.5.

While it may be interesting to assess the contribution from extractive companies to the major municipal governments in total, the reliability of reporting systems and difficulties in data gathering should be borne in mind.

Nevertheless, the MSG should consider this area further.

2.5.6 ARTISANAL AND SMALL SCALE MINING

Artisanal and small scale mining (ASM) was not included by the MSG in the scope of the current report. Information on the sector has been in short supply but there is currently work in progress to improve the understanding of this activity, much or most of which is unregulated. In particular, GIZ IS has carried out a project exploring ASM and has produced an informative report. In view of the level of activity described in the report, we have described in section 9 findings in the report, and included the full text in Appendices: 10.13.

The report contains suggestions that the sector generates revenue for government. For example. it is stated that tax payments in 2014 relating to lapis lazuli from mines in Badakhshan amounted to USD 630,000 (NB 2014 is outside the period covered by this EITI report). MOMP and MOF did not provide details of any payments received from gemstone producers for the fiscal periods 1391 (Mar-Dec 2012) and 1392 (2013) covered by this EITI report.

Pending a better understanding of ASM and improved regulation of the activities of persons and businesses engaged in the value chain (mining, consolidation, sale/export), it is unlikely to be practical to include ASM in an EITI reconciliation at this time. However, in view of the economic importance of the activities, AEITI could provide a focus for reporting on the sector and its integration into the state government, and we include recommendations in section 8.

2.5.7 AEITI IMPLEMENTATION

2.5.7.1 AEITI management

The MSG is chaired by MOF and co-chaired by MOMP. In June 2011, MOF and MOMP signed an MOU setting out their commitment to improving procedures for mining revenue management and data collection. While these arrangements are a demonstration of the commitment of both ministries to the implementation, there is potentially scope for lack of clarity of responsibility for certain matters.

It is suggested that government should keep this under active review, with the alternative that one ministry is given a lead role.

2.5.7.2 AEITI Secretariat

The Secretariat comprises a Coordinator and support staff, covering various disciplines (administration, financial, communications, procurement, translation). It operates effectively as a focal point for the Initiative and has been helpful during the preparation of the report, both in terms of arranging meetings and following up with stakeholders, and also in assisting stakeholders – especially government – in presenting the required information. We recommend that the role of the Secretariat continues to be supported – e.g. by implementation of the computerised systems recently specified with GIZ support – so that EITI implementation is securely embedded in Afghanistan.

The Secretariat produced a report on government provincial administration, highlighting possible revenue losses and resulting in the establishment of an investigative committee by MOF and MOMP (see further section 5.5.3.1).

2.5.8 UNRESOLVED DISCREPANCIES

Our work during the reconciliation phase revealed that the initial discrepancies between government and company reported figures arose from

1. Coding errors between categories. There seemed to be an inadequate understanding by government and companies as to which codes costs should be reported under. This point was covered at the training, but was not observed during completion of templates.
2. Reporting of payments in the wrong period (e.g. payment made in 1393 (2014) reported in 1392 (2013)).
3. Oddities in government reporting practice. Turkish Petroleum and Dragon Oil are the responsibility of MOF-LTO, but are dealt with by the regional office and the central LTO was unable to report data. This necessitated a visit to the regional office, and indicates inadequate reporting mechanisms within government and weakened control over revenue collection.

On conclusion of the reconciliation, net receipts reported by government exceeded payments reported by companies in 1391 (Mar-Dec 2012) and 1392 (2013) (see overview in section 2.2; and section 6.2 for details). Net unreconciled discrepancies were AFS 9.2 million for 1391 (Mar-Dec 2012) (0.2%) and AFS 45 million for 1392 (2013) (2.2%).

We recommend that the AEITI MSG should investigate these discrepancies further.

3 THE EXTRACTIVE INDUSTRIES IN AFGHANISTAN

Afghanistan is considered to have extensive mineral potential, with recent estimates putting the value of the country's mineral resources at USD 3 trillion, and former President Harmid Karzai describing them to investors them as worth USD 30 trillion.[3]

These estimates refer mainly to the value of minerals in the ground, and assume that the minerals are in large enough concentrations to be mined profitably and are[4] pending the development of infrastructure that will link mines to global markets.[5] The Ministry of Mines for Afghanistan has stated that based on the Government of Afghanistan's present economic plan, the annual income of Afghanistan from mining could increase to USD 3.5 billion within the next 15 years.[6]

3.1 SECTOR OVERVIEW

3.1.1 MINING

Afghanistan's mineral resources include precious metals, rare earth elements, coal, gemstones, copper and iron ore, as well as industrial minerals. These resources are largely undeveloped.

USGS reports production figures up to 2013 in its report on Afghanistan[7], based on best available information. The report notes that "Aluminium, barite, gold, lapis-lazuli, sand and gravel and talc were produced by artisanal miners, but available information was not sufficient to make reliable estimates of output."

The USGS production figures are shown in the table which follows.

Commodity	2009	2010	2011	2012	2013
Cement, hydraulic	32,000	36,000	38,000	37,000	40,000
Chromium, chromite ore	7,000	6	6,000	6,000	6,000
Coal, bituminous	500,000	725,000	750,000	780,000	936,000
Fertilizer	--	--	272,000	250,000	242,000
Gas, natural					
gross million cubic meters	142	142	142	161	160
marketed million cubic meters	140	140	142	145	141
Gypsum	46,000	63,000	62,000	57,000	57,000
Lime	128,000	128,000	128,000	130,000	130,000
Marble	27,000	29,000	29,000	45,000	67,000
Nitrogen, N content of ammonia	22,000	27,000	27,000	50,000	76,000
Petroleum, condensate (42 gallon barrels)	104	64,000	70,000	80,000	68,000
Salt, rock	180,000	186,000	186,000	147,000	145,000

[3] http://www.bloomberg.com/news/2013-12-15/karzai-tells-investors-u-s-will-meet-his-security-pact-demands.html
[4] http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/03/08/000333037_20130308111833/Rendered/PDF/758480PUB0EPI0001300PUBDATE02028013.pdf
[5] http://www.worldbank.org/en/news/feature/2013/04/02/qa-aynak-mining-afghanistan
[6] http://www.caps.af/Doc/Economic%20Growth%20opportunities%20in%20Afghanistan%20final.pdf
[7] http://minerals.usgs.gov/minerals/pubs/country/2013/myb3-2013-af.pdf

3.1.2 OIL

The country's oil resources are beginning to be developed, and one PSC and two summaries of terms of EPSCs have been published by MOMP on its website:-

3.1.2.1 Amu Darya PSC

A PSC was signed in December 2011 and production commenced late in 2012. MOMP reported production totalling 33,000 barrels for 2013.

3.1.2.2 Sanduqli block

An EPSC was signed on 8th October 2013 with a consortium comprising Dragon Oil, Turkish Petroleum and Ghazanfar, with Dragon Oil as the operator.

3.1.2.3 Mazar-i-Sharif block

An EPSC was signed on 8th October 2013 with a consortium comprising Dragon Oil, Turkish Petroleum and Ghazanfar, with Turkish Petroleum as the operator.

3.1.3 GAS

Afghanistan has proven gas resources, and there are active production operations managed by the Afghan Gas Enterprise. Estimates of production from public sources vary from 140,000 m^3 to 576,000 m^3 per day. MOMP reports on its website that production is currently around 450,000 m^3 per day, although the period to which this statement relates is not identified.

Various projects are under way to exploit the resources. For example, with assistance fromUSAID, the government is developing gas infrastructure in Sheberghan, and Turkish Petroleum was contracted in December 2013 to carry out drilling to establish the quantities of gas available in the field. Subsequently, in November 2015, MOMP announced the successful conclusion of Hydrocarbon Tender Agreement negotiations with a consortium of energy companies: Turkish Petroleum, Bayat Energy and Calik Enerji Sanayi ve Ticaret A.S. Upon approval of the agreement by Afghanistan's Cabinet, this Consortium will be permitted to commence natural gas exploration and production activities in the Totimaidan Block located within Afghanistan's Faryab and Jawzjan Provinces, long regarded as one of Central Asia's most promising potential sources of natural gas.

3.1.4 STATE OWNED ENTERPRISES

Two State Owned Enterprises (SOEs) are active in the extractive sector:-

- Northern Coal Enterprise
- Afghan Gas Enterprise

Further details of their activities are included in section 3.9, and both companies reported payments to government in this EITI Report.

3.2 CONTRIBUTION TO THE ECONOMY

Figures from various sources summarise the extractive sector's contribution to the economy in 2012 and 2013:

US Dollars	2012	2013
Total Income from Oil, Gas, and Mining Sectors (*Note 1*)		
Total Profit from Oil, Gas, and Mining Sectors (*Note 1*)		
Ministry of Mines and Petroleum Profit from SOEs	**36.52 mn**[8]	**34.4 mn**[9]
Total Government Revenue (including grants)	**5.1 bn**[10]	**4.9 bn**[11]
Mining sector contribution to GDP at market prices	**198 mn**[12]	**183 mn**[13]
Nominal GDP at market prices	**20.3 bn**[14]	**20.2 bn**[15]
Percentage of Afghanistan GDP from Oil, Gas, and Mining Sectors		

Note 1:- Information not published

Exchange rate (based on average of period):[16]

	Afghanis	US Dollar
2012	50.92	1
2013	55.38	1

3.3 MINING – MEDIUM AND LARGE SCALE

3.3.1 GENERAL

A wide variety of fuel and non-fuel mineral resources are known inside Afghanistan, including deposits of coal, copper, iron, gold, chromium, silver, barite, sulphur, talc, magnesium, salt, mica, marble, rubies, emeralds, and lapis lazuli.[17] Afghanistan may hold 60 million tons of copper, 2.2 billion tons of iron ore, and 1.4 million tons of rare earth elements such as lanthanum, cerium and neodymium, in addition to lodes of aluminium, gold, silver, zinc, mercury, and lithium.

The most recent and comprehensive survey of mineral deposits in Afghanistan has been provided by the United States Geological Survey's report entitled *Summaries of Important Areas for Mineral Investment and Production Opportunities of Nonfuel Minerals in Afghanistan*. The report summarises and interprets research into 24 areas of interest containing nonfuel mineral resources identified for investment and other production opportunities.[18]

[8] http://www.imf.org/external/pubs/ft/scr/2015/cr15324.pdf, p.47
[9] http://www.imf.org/external/pubs/ft/scr/2015/cr15324.pdf, p.47
[10] http://www.imf.org/external/pubs/ft/scr/2014/cr14128.pdf, p.39
[11] http://www.imf.org/external/pubs/ft/scr/2015/cr15324.pdf, p.36
[12] http://www.adb.org/sites/default/files/publication/175162/afg.pdf, p.1
[13] http://www.adb.org/sites/default/files/publication/175162/afg.pdf, p.1
[14] http://www.imf.org/external/pubs/ft/scr/2015/cr15324.pdf, p.5
[15] http://www.imf.org/external/pubs/ft/scr/2015/cr15324.pdf, p.5
[16] http://www.adb.org/sites/default/files/publication/175162/afg.pdf, p.5
[17] http://pubs.usgs.gov/fs/2011/3108/fs2011-3108.pdf
[18] http://pubs.usgs.gov/of/2011/1204/pdf/01.pdf

Afghanistan has, at present, two known world-class mineral deposits: the Aynak Copper Deposit and the Hajigak Iron Ore Deposit. The World Bank estimates that developing each project would require US$ 2-3 billion investment each, and that each mine would require investment in ancillary infrastructure in the range of US$ 2-3 billion more.

3.3.1.1 Copper

The Afghan Copper Belt is situated in the Kabul and Logar provinces and stretches over a length of 600 km, running parallel to the country's south-eastern border with Pakistan. It is host to three significant copper deposits rediscovered by Russian geologists in 1974: Aynak, Darband, and Jawkhar:

3.3.1.1.1 Aynak

The Aynak Copper Deposit, 30 kilometres south-east of Kabul, is the largest and best-known copper discovery in Afghanistan.[19] The Aynak prospect is the most explored copper deposit in Afghanistan,[20] with an estimated metal content of 240Mt at 2.3 percent pure copper.

3.3.1.1.2 Darband

The Darband Copper Deposit has an estimated metal content of more than 80Mt at 0.6 to 2 percent pure copper.

3.3.1.1.3 Jawkhar

Information and reports on Jawkhar are understood to be lost, attributed to Afghanistan's recent troubled history.[21]

In total, there are approximately 300 copper deposits, occurrences, and showings in Afghanistan; [22] one estimate suggests that the country has 68,500 million tonnes of copper resources.[23] For comparison Chile, currently the world's largest exporter of copper, has estimated resources of 190,000 million tons.[24]

3.3.1.2 Iron

The largest and best-known iron discovery is the Hajigak iron ore deposit, situated 130 km west of Kabul and valued at containing an estimated US$ 420 billion of resources.[25] A study carried out by scientist of the Soviet Union in the 1960s demonstrated the mineral potential of the region, and estimated at the time that the Hajigak resource contained some 1.8 billion tons of bauxite, with a concentration of approximately 62 percent pure iron.[26] The Hajigak project has experienced some delays, partly as a result of the fact that the deposit does not exactly resemble any existing metallogenic model.[27]

[19] http://www.bgs.ac.uk/afghanminerals/docs/copper_A4.pdf
[20] http://www.bgs.ac.uk/AfghanMinerals/basemetal.htm
[21] http://www.bgs.ac.uk/afghanminerals/docs/copper_A4.pdf
[22] http://www.bgs.ac.uk/afghanminerals/docs/copper_A4.pdf
[23] http://mines.pajhwok.com/content/copper-reserves-afghanistan
[24] http://www.mining.com/chile-the-largest-copper-producer-and-the-country-with-the-biggest-reserves-usgs/
[25] http://www.scientificamerican.com/article/afghanistan-holds-enormous-bounty-of-rare-earths/
[26] http://mom.gov.af/en/page/1378/1382
[27] http://www.researchgate.net/publication/236972843_Express_Report_On_Hajigak_Iron_Ore_Deposit_Bamyan_Central_Afghanistan

Additional iron ore discoveries include the Khaish deposit, estimated at containing 117Mt of iron ore at a concentration of 56 percent pure iron, and the Sausang deposit, estimated at containing 300Mt of iron ore at an unknown concentration.[28]

3.3.1.3 Gold

Placer gold deposits are found in two principal regions in Afghanistan. The first region is located in north-eastern Afghanistan in the provinces of Badakhshan, Takhar, and Baghlan. The second region comprises a belt of potential deposits in the Ghazni, Kandahar, and Zabul Provinces in south-western Afghanistan.[29]

The Ministry of Mines and Petroleum describes the Samti deposit in the Takhar province as the most important gold placer in Afghanistan,[30] containing estimated resources of more than 30,000 kilograms of gold.[31]

See also section 3.3.2 for small scale gold mining.

3.3.1.4 Coal

At present, nine coal fields and more than 42 coal deposits are known in Afghanistan.[32] Afghanistan has "moderate" to "potentially abundant" coal resources[33] in a belt stretching for more than 700km across the country;[34] in 1975 Russian and Afghan surveyors estimated that the country contained resources of 400 million tons.[35]

In 2005, coal production in Afghanistan was estimated to be 220,000 tons each year, of which around 80 percent came from small, artisanal mines, and the remaining 20 percent from government mines operated by the Northern Coal Enterprise.[36] Afghanistan is a net exporter of coal and in 2011 was reported to have exported 150,000 tons of coal to Pakistan.[37]

3.3.1.5 Rare Earth Minerals and Industrial Metals

In June 2010, the United States Geological Survey reported finding potential for lithium deposits in Afghanistan as large as those discovered in the country of Bolivia – which currently holds the world's largest resources of the metal – in one single location.[38] Known as the Khanneshin carbonatite and found in Helmand province, the deposit is valued at US$ 89 billion, and contains an estimated 1 million metric tons[39] of rare earth elements.[40]

The Khanneshin carbonatite contains a major potential source of rare earth elements including lanthanum, cerium, and neodymium and are comparable in grade to the only other world-class

[28] http://mom.gov.af/Content/files/MoMP_IRON_ORE_Midas_Jan_2014.pdf
[29] http://pubs.usgs.gov/of/2011/1204/pdf/12A.pdf
[30] http://www.bgs.ac.uk/afghanminerals/TheSamtiGoldDeposit.htm
[31] http://pubs.usgs.gov/of/2011/1204/pdf/12A.pdf
[32] http://aeiti.af/site_files/13943504591.pdf
[33] http://afghanistan.cr.usgs.gov/coal
[34] http://aeiti.af/site_files/13943504591.pdf
[35] http://www.afghanchamber.com/about/Mining.htm
[36] http://escweb.wr.usgs.gov/share/mooney/USGS%20coal%20assessment.pdf
[37] http://aeiti.af/site_files/13943504591.pdf
[38] http://www.mining.com/1-trillion-motherlode-of-lithium-and-gold-discovered-in-afghanistan/
[39] http://www.earthmagazine.org/article/afghanistans-mineral-resources-laid-bare
[40] http://www.nbcnews.com/science/science-news/rare-earth-afghanistan-sits-1-trillion-minerals-n196861

deposits in China.[41] The deposit is sufficient to supply global requirements for rare earths for the next ten years based on present levels of consumption.[42]

3.3.2 MINING OPERATING COMPANIES

3.3.2.1 Ministry of Mines and Petroleum published information

Some documents are published on the website of Ministry of Mines and Petroleum.[43] In relation to mining, available on the "contracts" section of the website are:

- The individual texts of 371 signed mining contracts,
- A database of mineral contracts; and
- The Aynak Copper Deposit contract, and additional agreements relating to other minerals, power supply, security, water, and railways.

The texts of the 371 mining contracts on the website are scanned versions of the signed hard copies. The language of the contracts is either Dari or Farsi. The contracts are mostly for smaller operations.

3.3.2.1.1 Database of Mineral Contracts

The Ministry of Mines and Petroleum publishes a database in the form of a spreadsheet of mineral contracts. This database contains a record of only 302 contracts. Additionally, the file numbers for the contracts recorded on the database and the file numbers for the scanned contracts available on the website do not correlate once past file number 221.The database shows that its 302 contracts are shared between 267 different individual contractors. It also shows that the type, extent, and median royalty for minerals mined, as follows:

Commodity		**Number of contracts**	**Median royalty (US$ per ton, unless otherwise stated)**
Coal		9	13.75
Construction Stone		120	0.33 per m^3
Gravel	*Gravel and sand*	11	0.46 per m^3
	Gravel containing soil	41	0.48 per m^3
	Sea gravel	8	0.48 per m^3
	Other	12	-
Gypsum		25	6.63
Marble		20	6.39
Salt		7	1.79
Sand		15	0.48 per m^3
Talc		18	8.83
Other:	*Bentonite*	1	2.19
	Chromite	2	62.7
	Combined operation	1	-
	Copper	1	Between 3% and 19.5%
	Ghori Cement	1	0.014
	Gold	2	23%
	Granite	1	3.64
	Lease of Cement Plant	1	-
	Rukham Stone	3	51.00
	Stone	3	-

[41] http://www.usgs.gov/newsroom/article.asp?ID=2936#.VKQhgdKsVxs
[42] http://www.scientificamerican.com/article/afghanistan-holds-enormous-bounty-of-rare-earths/
[43] http://mom.gov.af/en/page/1384

The database also shows where its recorded contracts are located in Afghanistan:

Number of Contracts by Province

Kabul	50	Balkh	6	Ghor	1
Nengarhar	26	Kapisa	5	Helmand	1
Kandahar	23	Bamyan	3	Jawzjan	1
Parwan	23	Maidan	3	Khak Jabar Kabul District	1
Faryab	15	Wardak	3	Khost	1
Baghlan	9	Badakhshan	2	Kunduz	1
Takhar	8	Ghazni	2	Sorobi Kabul District	1
Herat	7	Logar	2		
Samangan	7	Deh Sabz Kabul District	1		

The US Geological Survey has also published its own list of major operating companies in the extractive industries of Afghanistan.[44] It names a total of 24 separate "major operating companies" involved in mining (i.e. excluding steel and aluminium manufacture).

Not all of these companies are recorded in or share the same information as the Ministry of Mines and Petroleum database:

Company	Commodity	Province(s)	Listed by Ministry of Mines and Petroleum?
Afghan Cement L.L.C. (subsidiary of Afghan Investment Co.)	Cement	Baghlan	Possibly, as Afghan Anostment Company, and in Kabul Province
Jabal-e Saraj	Cement	Parwan	No
Herat	Cement	Herat	No
Hewad Brothers Mining Co.	Chromite	Parwan	Possibly, as Hewad Exploitation Company, and in Samangan Province
Afghan Coal L.L.C. (subsidiary of Afghan Investment Co.)	Coal	Baghlan	Possibly, as Afghan Anostment Company
Khushak Brothers Co. and North Coal Enterprise	Coal	Samangan, Badakhshan	Yes, although in Samangan Province only, without Northern Coal Enterprise
Hewadwal Co.	Construction Materials	Kapisa	Yes, although as in Kabul and Parwan Provinces
Ljewardeen Mining Co.	Lapiz Lazuli	Badakhshan	No
Equity Capital Management	Marble	Herat	No
Westco International FZE	Salt	Takhar	No
Amin Karimzai Ltd. and HZM Marmi e Pietre Ltd.	Talc	Nangarhar	No

3.3.2.1.2 Aynak Copper Deposit Contract and Additional Agreements

The website of the Ministry of Mines and Petroleum has also published a scanned and signed hard copy of the contract signed with the MCC-Jiangxi Copper Consortium for the Aynak Copper Deposit.

[44] http://minerals.usgs.gov/minerals/pubs/country/2013/myb3-2013-af.pdf, p.9

The webpage and contract itself indicates that it was signed and initialled on 8 April 2008,[45] although the Ministry's Executive Summary of the contracting process suggests it was signed in May 2008.[46]

The website also contains scanned and signed hard copies of agreements with the MCC-Jiangxi Cooper Consortium concerning other minerals, power supply, security, water supply, and railways.

A copy of a draft contract, dated April 2008, was allegedly leaked in either February[47] or March 2014.[48] Aside from handwritten comments appearing on the draft contract, there are no differences in content between the two contracts.[49]

3.3.2.2 The Aynak Copper Deposit

3.3.2.2.1 Tendering Process, Award of Lease, and Contract Signing

The website of the Ministry of Mines and Petroleum provides an online Executive Summary of the tender process leading up to the award of the contract.[50] This Summary refers to the Government of Afghanistan's commitment in 2006 to the EITI, its endorsement of the EITI principles in March 2009, and the country's endorsement by the international EITI Board as a candidate country in February 2010.

The Summary also refers to external expert advisers who believed that the tendering process "conforms to international practice", and that "[a] similar conclusion was reached in an independent review conducted by Integrity Watch Afghanistan in 2008". The report in question states that "the bidding process can be said to be broadly satisfactory, with no major case of a lack of integrity and professionalism", and that the process of selecting an investor had made "good progress".[51]

In November 2007 the Government of Afghanistan awarded a 30-year lease to the Metallurgical Corporation of China (MCC) to develop the site. [52] The lease covers exploration, submission of a feasibility study and an environmental and social impact assessment, and the subsequent construction of a copper mine.[53] MCC's bid consisted of an agreed investment of US$ 3 billion, and a railroad, power station, and coal mine and smelter.[54]

MCC took control of the site in 2008.[55]

3.3.2.2.2 Factors Affecting Current Operations

3.3.2.2.2.1 Archaeology

Mes Aynak was identified as an archaeological site in the 1960s and an archaeological team has been at the site since 2004.[56]

[45] http://mom.gov.af/en/page/1384
[46] http://mom.gov.af/en/page/1392
[47] http://www.andrewgrantham.co.uk/afghanistan/tag/copper-mine/
[48] http://blog.sacredland.org/mes-aynak-site-afghanistan-faces-destruction-copper-mine
[49] http://www.epanodos.co.nf/# and http://mom.gov.af/Content/files/MCC%20Afghan%20Gover%20Aynak%20Copper%20Contract%20English.pdf
[50] http://mom.gov.af/en/page/1392
[51] http://iwaweb.org/wp-content/uploads/2014/12/the_aynak_copper_mine_2008.pdf
[52] http://www.worldbank.org/en/news/feature/2013/04/02/qa-aynak-mining-afghanistan
[53] http://registan.net/2013/07/08/aynak-copper-mine-case-study-of-sino-afghan-dreams-interrupted/
[54] http://www.rferl.org/content/article/1079190.html
[55] http://www.worldbank.org/en/news/feature/2013/04/02/qa-aynak-mining-afghanistan
[56] https://www.globalwitness.org/en/copper-bottomed/

In December 2013, the Ministry of Mines and Petroleum stated that the archaeological value of the site was an ongoing challenge for the project, as the extent of archaeological finds had not been anticipated at signing of the contract.[57] The MCC-JCL Aynak Minerals had reportedly given archaeologists until 2012 to conclude their excavations on the site.[58]

3.3.2.2.2.2 Corporate Social Responsibility

In March 2014, reports indicated MCC-JCL Aynak Minerals had met with villagers who were to be relocated in the pursuit of the project;[59] by July 2015, reports suggested this had occurred and that six villages had experienced "forced displacement".[60] The Ministry of Mines and Petroleum itself states that a total of seven villages will be resettled.[61] Activist reports suggest that as of December 2015 six plots of residence out of a promised 512 had been distributed.[62]

3.3.2.2.2.3 Investment and Feasibility

Development of the mine has been slower than planned, with press reports that discussions were continuing over the royalty rate, and construction of the railway, power station and processing plant.

At the end of 2014, MCC-JCL Aynak Minerals produced a feasibility study, allegedly three years late.[63] On the advice of the World Bank, the Ministry asked for improvements.

3.3.2.3 The Hajigak Iron Ore Deposit

3.3.2.3.1 Tendering Process

In November 2011 consortia led by the Steel Authority of India Ltd (SAIL) and Kilo Gold Ltd of Canada were announced as the winning bidders for the mining rights in three and one licensing blocks respectively at the Hajigak Iron Ore deposit.[64]

3.3.2.3.2 Factors Affecting Contract Signing

In April 2012, Afghanistan's Minister for Mines stated that the contract with SAIL could be signed by the end of May 2012.[65] In May 2015, however, the Minister for Mines and Petroleum confirmed that no contract had been signed with either consortium.[66]

In September 2012, it was reported that contract negotiations were delayed on two points: firstly, a clause stating that the consortium would have to begin exploration within six months of signing or face termination of contract; and secondly a cap on iron ore exports to six million tonnes per annum.[67] In January 2013, it was reported that contract negotiations remained delayed, both because of the six-month exploration deadline, and because of contested responsibility for building a railway line from the Hajigak project to Bandar Abbas port in Iran. The expectation was that these issues would be discussed at a meeting in February 2013.[68] In October 2013, however, there were reports that SAIL was seeking to renegotiate its terms with the Government of Afghanistan, based on the improbability of

[57] http://mom.gov.af/en/news/27763
[58] http://edition.cnn.com/2012/09/22/opinion/afghanistan-buddha-site-mine/
[59] http://www.scmp.com/news/world/article/1453375/chinas-mcc-turns-back-us3b-mes-aynak-afghanistan-mine-deal
[60] http://america.aljazeera.com/articles/2015/7/11/chinese-company-taliban-battle-afghanistan.html
[61] http://mom.gov.af/Content/files/Work_progr_on_Aynak_Resettlement.pdf
[62] http://blog.sacredland.org/mes-aynak-site-afghanistan-faces-destruction-copper-mine
[63] http://www.reuters.com/article/afghanistan-china-copper-idUSL3N0WY4F920150412
[64] http://mom.gov.af/en/announcement/10776
[65] http://articles.economictimes.indiatimes.com/2012-04-10/news/31318759_1_hajigak-nmdc-and-rinl-mines-minister-wahidullah-shahrani
[66] http://www.newsfultoncounty.com/economics/news/082366-afghanistan-minister-lashes-out-at-foreign-mine-deals
[67] http://archive.indianexpress.com/news/new-hurdles-before-sail-team-in-hajigak/1000266/
[68] http://www.livemint.com/Companies/zUmQHI8JNu7d5l9fXhg5SK/SAIL-Afghan-officials-to-meet-over-Hajigak-contract.html

the construction of a new railway from Pakistan to Uzbekistan via Kabul by Chinese owned MCC-JCL Aynak Minerals in relation to its Aynak copper project.[69] In December 2013, the Minister for Agriculture, Asif Rahimi, stated that the reason for contract's delay was the ongoing passage of the new mining and minerals law through parliament.[70]

In November 2013, suggested that the steel consortium was considering reducing its investment into the Hajigak project from USD 11 billion to USD 1.5 billion.[71] An Indian report suggests that while the original bid was based on building a 6.12 mtpa steel mill and an 800MW power plant, this at some point was reduced to a 1.15 mtpa steel mill and a 120 MW power plant.[72]

3.3.2.4 Gold companies

In 2010, the Ministry signed a ten-year exploitation and development contract for the Samti deposit and one other also in the Takhar Province with Afghan firm West Land Trading Company. The contract is based on an obligation to extract 12 tonnes of gold from the Samti deposit,[73] provide more than 300 residents with jobs, invest in local infrastructure, and pay royalties set at 20 percent.[74]

In January 2011 the Ministry signed a contact with Afghan Krystal Natural Resources, a local company supported by a consortium of international investors, to invest up to USD 50 million in Qara Zaghan gold mine in Baghlan province.[75] The contract was facilitated by JP Morgan Chase & Co and former members of British special forces,[76] and the Minister of Mines Wahidullah Shahrani has said that the Government of Afghanistan will receive 26 percent royalties plus additional taxes from the project;[77] whilst there are indications that this royalty will be deducted from corporate tax,[78] this arrangement does not appear in the contract available online.[79]

Global Witness observes that the transparency around the Qara-Zaghan gold contract represents an advance on the Aynak copper contract. The Qara-Zaghan project has been published in full[80] and the contract details circulated in national newspapers, unlike the Aynak contract of which only a summary is available. However, the financial terms of the contract are unavailable and facts about their respective investing companies (including their beneficial ownership and corporate structure) remain limited.[81]

In July 2014, Integrity Watch Afghanistan found that the Afghan Krystal Mineral Resources Company had been extracting gold from the Qara Zaghan gold mine whilst only possessing an exploration licence.[82]

---

69 http://www.reuters.com/article/2013/10/29/us-afghanistan-mines-idUSBRE99S08J20131029
70 http://www.business-standard.com/article/news-ians/afghanistan-keen-to-ink-mining-contract-with-india-afghan-minister-113120900420_1.html
71 http://www.livemint.com/Companies/T4MgcOvNgmPl5kbxdEV5KJ/SAILled-consortium-to-cut-spend-on-Afghan-iron-ore-mine.html
72 http://www.financialexpress.com/article/economy/steel-firms-turn-pessimistic-on-afghan-project/67431/
73 http://mom.gov.af/Content/files/MoMP_GOLD_Midas_Jan_2014.pdf
74 http://pubs.usgs.gov/of/2011/1204/pdf/12A.pdf
75 http://www.reuters.com/article/2011/01/10/afghanistan-gold-idAFSGE70907820110110
76 http://www.mineweb.com/archive/afghan-gold-being-chased-by-ex-special-forces-entrepreneurs/
77 http://www.reuters.com/article/2011/01/10/afghanistan-gold-idAFSGE70907820110110
78 http://fortune.com/2011/05/11/j-p-morgans-hunt-for-afghan-gold/
79 http://mom.gov.af/Content/files/Mineral%20Contracts/File_211_QaraZaghan_Contract-English.pdf
80 http://mom.gov.af/Content/files/Mineral%20Contracts/File_211_QaraZaghan_Contract-English.pdf
81 http://www.globalwitness.org/sites/default/files/library/Getting%20to%20Gold_1.pdf
82 http://wadsam.com/afghan-business-news/integrity-watch-afghanistan-discovers-illegal-extraction-of-gold-232/

3.3.2.5 Precious Stones companies

The Baseline Study Report contains information about its authors' visits to operations in the provinces of Panjshir and Badakhshan, where mining is undertaken for emeralds and lapis lazuli respectively. No contracts for these operations appear either in the database of contracts on the Ministry of Mines and Petroleum website, nor in the subsequent list of individual contracts.

3.3.3 THE FUTURE OF AFGHANISTAN'S MINING INDUSTRY

3.3.3.1 Tendering Projects

The result of the studies by the USGS have been the foundation for a programme of major international tenders for development of resource blocks in the Important Areas of Mineral Interest.
As at December 2012, the status of tenders and awards for large mineral development projects let to international tender can be summarised as follows:

	Name of Project	Principal commodity/product	Status of Contract
	Balkhab Copper (Sar-I-Pul & Balkh provinces)	Copper	Contract awarded to international consortium Afghan Gold and Minerals Company Ltd in December 2012.[83] Production was not expected to start for at least 18 months from the signing of the contract.[84]
	Shaida Copper (Herat Province)	Copper	Contract awarded to international consortium Afghan Minerals Group in December 2012.[85]
	Badakhshan Gold (Badakhshan Province)	Gold	Contract awarded to international consortium Turkish-Afghan Mining Corporation in December 2012.[86]
	Zarkhashan Gold-Copper (Ghazni)	Gold	Contract awarded to international consortium of European and Arab firms.[87]

3.3.3.2 The Aynak Copper Deposit

In both October[88] and November 2015,[89] according to the Ministry of Mines and Petroleum, the Chinese Ambassador met with the Minister of Mines and Petroleum and committed to implementing the Aynak Copper project.

[83] http://www.mining.com/afghanistan-grants-key-copper-and-gold-mining-permits-52804/
[84] http://www.rferl.org/content/afghanistan-copper-tender-agmc-mining/25228243.html
[85] http://www.mineweb.com/archive/indian-bid-for-giant-afghan-copper-mine-fails-to-secure-project/
[86] http://www.mining.com/afghanistan-grants-key-copper-and-gold-mining-permits-52804/
[87] http://wadsam.com/afghan-business-news/pending-approval-of-afghan-mining-law-delays-4-major-mines-contracts-989/
[88] http://mom.gov.af/en/news/56078
[89] http://mom.gov.af/en/news/56441

3.3.3.2.1 Archaeology

The recognition of the archaeological value of the site is growing. 1 July 2015 was the first "Save Mes Aynak Day", advocating greater time and protection accorded to the relics at Mes Aynak.[90] An online petition on the topic of protecting the site's heritage has over 80,000 signatures.[91]

However, it is possible that the mutual effects of the excavation and mining have been overstated. The Alliance for Cultural Restoration and Heritage states that the predicted time to and overall extent of mining operations has been exaggerated, not least by the Ministry itself.[92] Some reports predict that no mining will take place before 2018.[93]

3.3.3.2.2 Investment and Feasibility

The revised feasibility report, requested around the end of 2014, has not been received by the Ministry of Mines and Petroleum.

3.3.3.2.3 Security

In August 2015, the Ministry of Mines and Petroleum stated that the demining programme around Aynak Copper project that began in 2009 would be completed by the end of the year, permitting the company to start its activities in the area.[94] Reports of January 2016 indicated that the overall security situation in Afghanistan is not improving, with an average of one in ten Afghan soldiers either killed or wounded.[95]

3.3.3.3 The Hajigak Iron Ore Deposit

In February 2015 Afghanistan's Ambassador to India stated that security concerns were not delaying operations at the Hajigak deposit and that new mining laws would soon make it easier for Indian companies to operate in Afghanistan.[96]

In May 2015, some Afghan media reported that the consortium had abandoned the project,[97] though the Indian Ambassador to Afghanistan posted on Twitter that this was not the case.[98] The belief that the consortium had abandoned the project may have been brought about by a letter sent by SAIL to India's Ministry of Steel around April 2014 apparently stating that the consortium was "apprehensive" about continuing to pursue the project. At around the same time, Indian state-run consortium member Rashtriya Ispat Nigam had apparently written to the Ministry of Steel asking for its stake in the venture to be reduced to "as low as possible".[99]

In response to the reports that the consortium had abandoned the project, Afghanistan's Minister for Mines and Petroleum stated that reports referring to the cancellation of a contract were erroneous as

[90] http://www.savingmesaynak.com/news/savemesaynakday
[91] https://www.change.org/p/president-ashraf-ghani-ahmadzai-prevent-destruction-of-ancient-site-of-mes-aynak-amp-the-environmental-damage
[92] http://www.archinternational.org/mes_aynak.html
[93] http://ngm.nationalgeographic.com/2015/09/mes-aynak/bloch-text
[94] http://mom.gov.af/en/news/demining-of-aynak-area-to-complete-by-the-end-of-this-year
[95] http://www.reuters.com/article/us-afghanistan-army-desertions-idUSKCN0UW1K3
[96] http://www.thehindu.com/business/Industry/hajigak-project-not-stuck-due-on-security-concerns-afghan-envoy/article6925943.ece
[97] http://mines.pajhwok.com/news/indian-consortium-scraps-gigantic-afghan-project
[98] http://articles.economictimes.indiatimes.com/2015-05-24/news/62583294_1_hajigak-afisco-three-iron-ore-mines
[99] http://www.financialexpress.com/article/economy/steel-firms-turn-pessimistic-on-afghan-project/67431/

no contract had ever been signed.[100] He also cautioned that he did not believe he would face any legal obstacles to cancelling any agreements signed by the Karzai administration.[101]

In November 2015, reports suggested that due to the declining security situation, the SAIL consortium would no longer negotiate over the project.[102]

3.4 ARTISANAL AND SMALL SCALE MINING

Information in this section is drawn from work carried out by GIZ IS for MOMP, and from other public sources (as credited).

There is a separate section on the findings from the GIZ IS work on ASM – see Section 9.

3.4.1 MINERALS MINED BY ARTISANAL AND SMALL SCALE OPERATIONS

3.4.1.1 Precious Stones

Afghanistan has records of 73 different mines, deposits, occurrences, and showings.[103] There are four main gemstone producing areas: the Panjshir Valley producing emeralds, the Jegdalek area producing rubies, Badakhshan producing lapis lazuli, and semi-precious gems from Nuristan. Gemstone mining in Afghanistan is an artisanal activity, carried out by people living in villages surrounding the mines.[104]

3.4.1.1.1 Emeralds

Emeralds are found in the Panjshir Valley in Parwan Province, where their quality rivals that of Colombia and Zambia, currently two of the world's largest producers.[105] Estimates of current production are speculative, but before the civil war production was said to be between USD 8 and 10 million p.a.,[106] and up to USD 12 million in 1995.[107]

3.4.1.1.2 Rubies

Rubies are mined at Jegdalek Gandamak in Kabul Province, believed to have sourced the rubies in the British Crown Jewels. True rubies form 15 percent of the production at Jegdalek, along with pink sapphires (75 percent), and blue sapphire (5 percent).[108]

3.4.1.1.3 Lapis Lazuli

Afghanistan is the world's leading producer of lapis lazuli,[109] mined in the 'Blue Mountain' in Badakhshan. Formerly, seven mines extracted lapis lazuli but today there is only one, the Sary-Sang deposit, worked only between June and September due to low winter temperatures. Production figures are estimated at 9000kg each year. A speculative estimate of resources is 1300 tonnes.[110]

[100] http://www.afghanzariza.com/2015/05/26/hajigak-mining-contract-was-never-signed-with-indian-consortium-says-minister-of-mines
[101] http://www.newsfultoncounty.com/economics/news/082366-afghanistan-minister-lashes-out-at-foreign-mine-deals
[102] http://www.miningweekly.com/article/india-afghanistan-wont-pursue-mining-steel-project-2015-11-27
[103] http://www.bgs.ac.uk/afghanminerals/preciousstone.htm
[104] http://www.bgs.ac.uk/afghanminerals/docs/Gemstones_A4.pdf
[105] http://www.aljazeera.com/programmes/peopleandpower/2014/05/afghanistan-hidden-gems-20145211098919141.html
[106] http://www.bgs.ac.uk/afghanminerals/docs/Gemstones_A4.pdf
[107] http://www.bgs.ac.uk/afghanminerals/preciousstone.htm
[108] http://www.bgs.ac.uk/afghanminerals/docs/Gemstones_A4.pdf
[109] http://www.bgs.ac.uk/afghanminerals/preciousstone.htm
[110] http://www.bgs.ac.uk/afghanminerals/docs/Gemstones_A4.pdf

3.4.1.1.4 Semi-precious stones from Nuristan

Nuristan, a region in the east of Afghanistan bordering Pakistan, is a source of gem-quality tourmalines, spodumene, topaz, and aquamarine.[111]

PEGMATITE GEMS are world class in the Nuristan pegmatite region straddling 3 provinces: Nuristan, Laghman and Kunarha. About 500 miners work these pegmatites all-year-round, extracting gem-quality crystals of tourmaline, spodumene (kunzite), aquamarine, beryl, sapphire etc.

Gem-quality TOURMALINE - hundreds of thousands of carats were extracted in the Nuristan region between 1980 and 1985 (Bowersox), famed for rainbow range of colours.

Gem-quality SPODUMENE includes the lilac purple shades known as KUNZITE. In the Salang Pass, spodumene crystals are up to half a metre long and found with ores of tantalum and tin. Bowersox estimated that about 2 tonnes of fine kunzite were mined annually in the Nuristan region.[112]

3.4.1.2 Precious metals[113]

3.4.1.2.1 Gold

ALLUVIAL GOLD PANNING is significant along hundreds of kilometres of the floodplain and lower terrace of the Amu Darya river between Noorubi and Balkh Province. Credible reports suggest up to 500 thinly scattered gold panners are active. The Samtii alluvials are very rich in placer gold, with <20 tonnes proved by Russian 'churn drills'. Such drills are notorious for losing gold. Applying correction factors indicates a probable gold resource of 80 tonnes.

PALEOPLACER GOLD MINING is intensive at Naroobi where more than 600 mine tunnels exist in very thick Neogene sediments elevated high above the valleys. Some underground mines are ancient but 500 to 1,200 artisanal gold miners are present. It is suspected that twice as many are tunnelling into similar deposits in nearby valley sides. Natural erosion of the valley sides replenishes the valley floor with alluvial gold for industrial SME mining.

3.4.1.2.2 Silver

METALLURGICAL SLAG from silver smelting is very extensive, totalling several km2 in Panjshir. The slags are high in silver content. Carbon dating indicates some slags are 4,400-4,800 years old. Mining peaked around 350 BC to pay Alexander the Great's army and mint tonnes of silver coins for his Greek city near Bagram. Mining peaked again with 10,000 miners in 800-900 A.D. when Panjshir silver coins were traded in millions along the 'Silver Road' to Germany and the Viking empire. New fieldwork suggests ASM silver mining is again economic.

3.4.1.2.3 Chromite

CHROMITE MINES are small and found in 15 scattered areas of chromite mineralization best known in the Logar Valley, south of Kabul. Other areas include Jurgati in Parwan Province, Werek in Logar Province, Sperkay and Shandal in Paktia Province. In addition, minor occurrences of chromite in alluvial deposits and of small chromite lenses in situ are reported in Kandahar Province. At least 1,000 workers, legal and informal, are engaged in mining, processing and exporting chromite. All production is

---

[111] http://www.bgs.ac.uk/afghanminerals/docs/Gemstones_A4.pdf
[112] Information provided by GIZ IS
[113] Information provided by GIZ IS

exported by truck mostly to Pakistan and mostly as unwashed run-of-mine ore. Several well-equipped facilities have been built, including one in Kabul, to upgrade run-of-mine ore prior to export by crushing, washing, milling and density separation with spirals and tables to gain added value and cut weight.

3.4.1.3 Other materials[114]

MARBLE has been one of the fastest growing sectors of in Afghanistan. Currently 40 marbles and other facing stones are quarried in Kabul, Logar, Wardak, Badakhshan, Bamyan, Helmand, Herat, Nangarhar, Kandahar, Faryab, Paktia, Parwan, Ghazni and Samangan provinces. The quarries employ 800 to 1,200 workers, and at least a thousand more in marble factories. In total, about 150 marbles have been identified. The sector is gaining share of the domestic market for low-cost marbles, while expanding exports of high-value marbles in demand worldwide.

CRUSHED AGGREGATES are a large industry, active in most or all provinces, with major concentration around Kabul and to a lesser extent other cities. It is probable that more than 15,000 people are employed as 'quarrymen' and truckers to take the aggregate to customers. The quarries range from permanent to seasonal, and include 'borrow pits' for road construction and maintenance. The quarries often specialise, e.g. schist slabs for paving and walling; marble and quartzite blocks for walling; adamellite talus for road top dressing; crushed screened rocks for making concrete etc. No economy of scale is evident.

RIVER QUARRYING is a vital industry, employing at least 2,500 people in producing low cost uncrushed aggregate. Remote sensing shows river quarries along 31 km of Kabul river, 21 km of Gariband river, 20 km of Panjshir river, 15 km of Taloqan river, 12 km of Salang river etc. Impacts depend on many factors and range from Extremely Severe (e.g. Kabul river) to Moderate (e.g. Gharband river) to Probably Benign (e.g. Salang and Panjshir rivers). River mining is done during summer low water, using trucks and spades, often assisted by small front end loaders. No sand dredges have been seen, perhaps due to turbulent rapids and seasonal emergence of gravel bars and sandbanks.

RIVER PONDING is prevalent whereby local people quarry alluvium to build dams to create large ponds to attract ducks and geese for hunting. Google Earth shows 98 on the Panshir river, 240 on the Salang river and 183 on the Gharband river. Duck hunting is an important source of food for villagers, intercepting bird migration flyways. 957 gun hides detected so far. Several thousand men are engaged in constructing, maintaining and operating the system. The dams total more than 120 km in length. River mining to facilitate duck hunting is also seen on Google Earth in Chitral (Pakistan) and western China.

CLAY QUARRIES are numerous in Afghanistan to supply clayey material to brick kilns and pottery kilns. The quarries are often dug in arable farmland leased from the farmer. A typical clay quarry is at least 2 hectares in area and 8 to 20 metres deep. Clay processing is completed inside the quarry prior to transport on the shoulder or by donkey-carts to the brick kiln for firing. 1,833 brick kilns have been pinpointed on Google Earth but the real figure is believed to be 2,500 due to the rapid expansion of the brick sector. The sector has an estimated annual turnover of $120m and 90,000 workers half of whom are teenagers and children. POTTERY is made in all but 7 of the 34 provinces as a handicraft in 173 villages of which 23 are in Badakhshan. 500 ASM clay quarries would suffice to supply the pottery sector. Pottery is a craft industry, thought to employ at least 20,000 villagers. Plain pots of large size

[114] Information provided by GIZ IS

are widely used for storing water, oil and foodstuffs. A few villages are famous for their decorative glazed pots and traditional ornaments.

MCK - MOBILE CHIMNEY KILNS are numerous in Afghanistan, but banned since 1997 in India, Bangladesh and Pakistan due to chronic respiratory disease and deaths from severe air pollution. Some MCK still exist in Pakistan towards the Afghan border and are rapidly disappearing or being converted to FCK, under pressure from environmental legislation. In contrast, 758 MCK are visible in Afghanistan - the largest cluster of these highly polluting brick kilns in South Asia and probably the world.

FIXED CHIMNEY KILNS FCK are much less polluting than the Mobile Chimney Kilns MCK. Thousands of FCK are the normal industrial-scale brick kilns in Pakistan, India and Bangladesh, but only 191 are visible on Google Earth in Afghanistan.

ROCKSALT MINES are associated with salt domes that have been mined for centuries. For instance Google Earth shows one salt dome with a residual gypsum cap in Takhar Province to be peppered with about 30 artisanal rock-salt mines, sustaining about 400 miners and their families. Barely 2km to the west is the Taqcha Khana Salt Mine that was formalised in 2005 and employs has more than 150 workers. Nationally the rock salt mines and brine ponds support perhaps at least 2,000 miners and their families, and make a vital contribution to import substitution.

3.5 HYDROCARBONS

According to information available from the Ministry of Mines and Petroleum, Afghanistan's resources of oil and gas are 1.6 billion barrels and 400 million cubic metres respectively.[115] The Asian Development Bank suggests the country has resources of over 500 million cubic metres of natural gas.[116]

Afghanistan's main hydrocarbon sites are located in two particular areas: the Amu Darya basin and the Afghan-Tajik basin. Additional hydrocarbon resources may exist in the Tirpul Basin (approximate resources of 21.55 barrels of oil and 44.74 billion cubic feet of natural gas)[117] the Helmund Basin, and the Katawaz Basin.[118] Of the last two, little exploration has taken place despite favourable geological indications.[119]

According to the USGS, the underlying geological formations beneath Amu Darya and Afghan-Tajik basins – spread across Afghanistan, Iran, Tajikistan, Turkmenistan, and Uzbekistan – contain almost two billion barrels of crude oil and 1.7 trillion cubic metres of gas.[120]

Oil extraction in Afghanistan began in 2013 in the Amu Darya Basin.[121]

3.5.1 OIL

[115] http://mom.gov.af/en/page/4713
[116] http://adb.org/projects/details?page=details&proj_id=47018-001
[117] http://pubs.usgs.gov/fs/2009/3070/pdf/FS09-3070.pdf
[118] http://pubs.usgs.gov/fs/2009/3070/pdf/FS09-3070.pdf
[119] http://mom.gov.af/en/page/4713
[120] http://pubs.usgs.gov/fs/2011/3154/report/FS11-3154.pdf
[121] http://uk.reuters.com/article/2012/10/21/uk-afghanistan-oil-idUKBRE89K07Y20121021

3.5.1.1.1 Amu Darya

In December 2011 the Government of Afghanistan signed a 25-year Exploration and Production Sharing Contract with the China National Petroleum Corporation to cover drilling and a planned refinery in three blocks[122] in the northern provinces of Faryab and Sar-e-Pul in the Amu Darya Basin.[123] The fields accessible I the three blocks are expected to contain more than 80 million barrels of oil, with a further potential 80 million barrels of undiscovered resources.[124]

In May 2013, the Minister of Mines and Petroleum H.E. Wahidullah Sharani stated that Afghanistan would begin commercial oil production at the operation within two months.[125] Output from the project was expected to rise to 25,000 barrels a day by the end of 2013 to 40,000 barrels a day by 2014.[126]

One of the allocated blocks included the Agnot oil field, discovered in 1967 and Afghanistan's only oil field with a history of sustained production.[127] In July 2011, the 800 barrels of oil produced each day from the field under a short-term six-month contract[128] were said by Minister of Mines Wahidullah Sharani to be worth tens of millions of dollars in government revenue.[129]

The China National Petroleum Corporation is partnered by Afghan firm Watan Oil and Gas,[130] and the operating company CNPCI-Watan Oil and Gas Afghanistan Limited will pay a 15 percent royalty and post a financial guarantee of USD 10 million to pledge on its commitment to an exploration programme.[131]

In December 2012, some media outlets reported that the Corporation was looking to sell its oil extraction rights due to the high sulphur content of the extracted crude oil.132 In June 2012, work was also disrupted when Chinese engineers were attacked by armed men.133 In August 2013, reports indicated that extraction had halted at the site due to a disagreement between the Corporation and Uzbekistan over a transit contract designed to transport the extracted oil back to China.[134]

Contracts are published by the Ministry of Mines and Petroleum.[135] Relevant to hydrocarbons, made available on the website are:

- The Amu Darya Oil Basin contract with CNPCI Watan Oil and Gas Afghanistan Ltd
- Contracts for the Sanduqli and Mazar-i-Sharif blocks of the Afghan-Tajik oil basin with Dragon Oil, TP Afghanistan Limited, and Ghanzafar Investment Ltd consortium

122 http://mom.gov.af/en/announcement/10780
123 http://uk.reuters.com/article/2012/10/21/uk-afghanistan-oil-idUKBRE89K07Y20121021
124 http://mom.gov.af/en/announcement/10780
125 http://www.abc.net.au/news/2013-05-18/australia-backs-afghan27s-struggling-miners/4698082
126 http://www.rigzone.com/news/oil_gas/a/125184/CNPC_to_Start_Oil_Production_in_Afghanistan_Soon
127 http://www.ogj.com/articles/2012/01/cnpc-gets-three-afghanistan-amu-darya-blocks.html
128 http://www.energy-pedia.com/news/afghanistan/afghan-government-awards-short-term-crude-oil-contract-for-the-angot-field
129 https://iwpr.net/global-voices/oiling-wheels-afghanistan
130 http://mom.gov.af/en/announcement/10780
131 http://mom.gov.af/en/announcement/10780
132 http://news.tj/en/news/china-seeks-sell-its-amu-darya-oil-extraction-rights-investors-tajikistan-or-uzbekistan
133 http://oilprice.com/Energy/Crude-Oil/1.5-Billion-Barrels-of-Oil-And-No-Takers.html
134 http://www.tolonews.com/en/business/11614-amu-darya-basin-oil-extraction-operation-halted
135 http://mom.gov.af/en/page/1384

3.5.1.1.2 Afghan-Tajik

In October 2013, the Government of Afghanistan signed a multi-year exploration and production contract with an international consortium of firms for two blocks located in the west of the Afghan-Tajik Basin.[136] The firms comprising the successful consortium were United Arab Emirates owned companies Dragon Oil (Sanduqli) Limited and Dragon Oil (Mazar-i-Sharif) Limited, Turkish Petroleum Afghanistan Limited, and Afghan firm Ghazanfar Investments Limited.[137] The Afghan-Tajik project is described as the largest in the country.[138]

3.5.2 GAS

Afghanistan contains three distinct gas basins with significant potential, namely the Amu Darya Basin, the Afghan-Tajik Basin, and the Kushka Basin.[139] Most natural gas exploration and infrastructure is centred in Jowzjan Province, near the city of Sheberghan,[140] and located above the west of the Afghan-Tajik basin.[141]

A total of 144 natural gas wells (exploration, observation and exploitation) were drilled in the major producing gas fields during the Soviet occupation.[142] There are presently varying indications of the number of gas wells operational in Afghanistan.

The website of Ministry of Mines and Petroleum states that 34 natural gas wells[143] are active in the three fields developed under the Soviet era: Gerqudaq, Yatimdaq, and Khwaja Gogerdak, and also reports that in early 2011 a further well was rehabilitated in the Shakarak field. [144] Reports indicate that these 35 wells produce about 576,000 cubic metres of gas each day. However, media investigations in 2012 suggested that less than half the wells in the Sheberghan area were operational, and that the average daily output of gas is 140,000 cubic metres.[145] In May 2013, the Ministry indicated that a further eight wells would be online by October 2013.[146]

Around 80 percent of the gas produced by the Sheberghan oil fields is supplied to the Northern Fertilizer and Power Plant at Mazar, whilst the balance is supplied to domestic consumers in Sheberghan, Aqcha, and Khoja Dokoh districts.

The gas supplied to the Northern Fertilizer and Power Plant is transported via a pipeline reconstructed by the United States of America.[147] In December 2014 the United States' own oversight authority on the reconstruction of Afghanistan expressed concern about the thoroughness of the pipe's reconstruction,[148] and suggested that three kilometres of the Soviet-era pipeline still need to be replaced.[149]

3.5.3 INFRASTRUCTURE

[136] http://mom.gov.af/en/news/international-energy-companies-sign-historic-contract-for-afghan-tajik-oil-and-gas-resources
[137] http://mom.gov.af/en/news/cabinet-approves-afghan-tajik-oil-and-gas-contracts
[138] http://www.abc.net.au/news/2013-05-18/australia-backs-afghan27s-struggling-miners/4698082
[139] http://adb.org/projects/details?page=details&proj_id=47018-001
[140] http://mom.gov.af/en/page/4750
[141] http://mom.gov.af/en/news/international-energy-companies-sign-historic-contract-for-afghan-tajik-oil-and-gas-resources
[142] http://mom.gov.af/en/page/4750
[143] http://mom.gov.af/en/page/4750
[144] http://mom.gov.af/en/page/4750
[145] http://www.wsj.com/articles/SB10001424127887324439804578115023494349946
[146] http://mom.gov.af/en/news/20121
[147] http://mom.gov.af/en/news/20123
[148] http://www.washingtonexaminer.com/article/2557417
[149] http://pipelinesinternational.com/news/sigar_urges_us_department_of_defense_to_repair_afghanistan_pipeline/090469/

Afghanistan currently contains little refining or transport infrastructure, leading to delays in project execution as transit or refining agreements need to be agreed with third parties. Present solutions rest on agreements with Turkmenistan, Tajikistan, and Uzbekistan.[150]

3.5.3.1.1 Refineries

In June 2011, there was only one oil refinery in Afghanistan, located at Hairatan near the border with Uzbekistan and built by Kam Group, a privately-run Afghan company. The refinery had a capacity of 28 metric tons a day, but indicated that the quality of oil that it was receiving from the Angot field was making refining at the price stipulated by the existing contract unsustainable.[151] Reports suggest that the refinery was expanded in 2013 to a capacity of 500 tons each day.[152] In 2014, it was reported that the refinery was processing oil from the Amu Darya project.[153]

In November 2013 a second refinery began operations, also at Hairatan,[154] with a capacity of 500 metric tonnes a day.[155] The refinery is owned by Ghazanfar Group, the local partner of the successful Afghan-Tajik Basin bidding consortium.[156] In August 2013, the Government of Afghanistan ordered that the refinery be closed whilst allegations of unfair trading practices were investigated.[157] The refinery recommenced operations in December that year.[158]

In December 2012, Afghanistan Investment Support Agency Chief Wafiullah Iftikhar reported that a refinery funded by Afghan-American oil company FMC with a capacity of 60,000 barrels per day would be constructed by 2016. The refinery would process oil produced by the Amu Darya fields,[159] and in 2012 FMC and the China National Petroleum Corps signed a three-year contract for this purpose.[160]

3.5.3.1.2 Railways and Pipelines

In March 2013, President Hamid Karzai signed a memorandum of understanding with his counterparts in Turkmenistan and Tajikistan for a proposed 220-250 mile railway linking their three countries together, as well as to other areas of Eurasia.[161] The purpose of the railway is to end Afghanistan's transportation isolation,[162] and construction is planned to commence soon.

The TAPI – Turkmenistan, Afghanistan, Pakistan, India – pipeline will transport natural gas from Turkmenistan via Afghanistan and Pakistan and to India. The 1,735-kilometer pipeline will run from the Dauletabad gas field in Turkmenistan through Afghanistan and Pakistan to the Indian town of Fazilka.[163] Pakistan and India will purchase 42 percent each of the 33 billion cubic metres that will be annually transported through the pipeline. Afghanistan will purchase the remaining 16 percent, amounting to 5.11 billion cubic metres annually, whilst also being entitled to receive annual transit fees of USD 400 million[164] for the use of its territory from each of the other TAPI buyers.[165]

---

[150] http://www.reuters.com/article/2013/08/18/afghanistan-china-idUSL4N0GJ05G20130818
[151] http://oilprice.com/Energy/Energy-General/Afghanistans-Developing-Oil-Industry-Causing-Envious-Glares-From-Neighbors.html
[152] http://www.acci.org.af/component/content/article/38-news/416-the-first-afghanistans-refinery-opened-.html
[153] http://stratrisks.com/geostrat/19627
[154] http://wadsam.com/afghan-business-news/afghanistans-second-oil-refinery-plant-inaugurated-232/
[155] http://www.ghazanfargroup.com/refinery.php?lang=en
[156] http://www.ghazanfargroup.com/oil-and-gas.php?lang=en
[157] http://www.tolonews.com/en/afghanistan/11727-khalilis-office-orders-ghazanfar-refinery-to-be-sealed
[158] http://wadsam.com/afghan-business-news/ghazanfar-oil-refinery-resumes-work-232/
[159] http://mines.pajhwok.com/news/key-oil-refinery-being-constructed-north
[160] http://wadsam.com/afghan-business-news/fmc-to-make-oil-refinery-in-afghanistan-9879/
[161] http://thediplomat.com/2013/04/afghanistans-coming-energy-boom/
[162] http://www.cacianalyst.org/publications/field-reports/item/12760-turkmenistan-afghanistan-tadjikistan-railway-project-inaugurated.html
[163] http://mom.gov.af/en/page/4717
[164] http://www.stratfor.com/the-hub/afghanistan-future-energy-corridor#axzz3OFBAa4ts

3.5.4 HYDROCARBON BIDDING ROUNDS

Afghanistan has held a total of four separate bidding rounds for hydrocarbon blocks. The link recommended by international investment and legal firms to historic information about bidding rounds in Afghanistan is currently broken.[166]

http://www.chinaero.com.cn/english/energy_enterprise/11/129758.shtml

On October 20, with oil produced from Well AN-8 flowing into the gathering station for degasification and dehydration, the ANGOT Oilfield was put into pilot production. Accompanied by Chinese and Afghan staff of CNPC's AD Project in Afghanistan, Afghan Mining Minister Wahidullah Shahrani witnessed the commissioning of the ANGOT Oilfield.

Located in Sar-e Pol in Northern Afghanistan, ANGOT Oilfield is the first to be developed in the contracted area between CNPC and the Afghan Government.

3.5.4.1.1 First Afghan Hydrocarbon Bidding Round, 2009

The First Afghan Hydrocarbon Bidding Round was launched by the Ministry of Mines in March 2009, where three blocks out of a total of eleven in northern Afghanistan were offered. Contracts for the blocks were to be signed no later than December 2009.[167]

Whilst eleven companies submitted expressions of interest, only eight were announced as qualified bidders in July 2009. After the deadline for the submission of bids was extended to November 2009, one bid was received from Orient Petroleum International for the Kashkari block,[168] which was rejected in February 2010.[169] The Kashkari Block, in addition to two others, was subsequently awarded to the China National Petroleum Corporation under the Amu Darya Oil Basin Tender of 2011.

3.5.4.1.2 Amu Darya Oil Basin Tender, 2011

In March 2009 the Ministry of Mines launched the Amu Darya Basin Oil Tender to initiate hydrocarbon exploration in Northern Afghanistan. The blocks offered were the Kashkari, Bazarkhami, and Zamarudsay. Some details of the Production Sharing Contract to be used in the event of a signed contract were released at the time of the tender, and included:

- Fixed percentage of royalty.
- Provision for cost recovery before profit oil.
- Two tiers of profit-sharing: a specific percentage for known fields, and a specific percentage for remainder of block.
- Companies allowed to bid in consortium, provided the operator is qualified under Afghan Law. [170]

After five international companies qualified to bid for the project,171 a 25-year contract was awarded to the China National Petroleum Corp.[172]. An abstract of the subsequent Exploration and Production

[165] http://mom.gov.af/en/page/4717
[166] http://www.afghanistanpetroleum.com/
[167] http://www.psg.deloitte.co.uk/NewsLicensingRounds_AF_0903.asp
[168] http://www.psg.deloitte.co.uk/NewsLicensingRounds_AF_100419.asp
[169] http://www.psg.deloitte.co.uk/NewsLicensingRounds_AF_100419.asp
[170] http://www.psg.deloitte.co.uk/NewsLicensingRounds_AF_110412.asp
[171] http://www.energy-pedia.com/news/afghanistan/tethys-petroleum-praises-openness-of-afghan-tendering-process
[172] http://www.ogj.com/articles/2012/01/cnpc-gets-three-afghanistan-amu-darya-blocks.html

Sharing Contract between the Government of Afghanistan and the Corporation has been made available by the Ministry of Mines and Petroleum.[173]

3.5.4.1.3 Afghan-Tajik Tender, 2012

In March 2012 the Ministry of Mines launched the Afghan-Tajik Tender for exploration, development, and production of hydrocarbons in six blocks in the Afghan-Tajik basin in Northern Afghanistan. An indicative date for the awarding of the contract was set as March 2013.[174]

Contracts for the blocks awarded under the Tender were signed in October 2013. Two blocks received a single bid each, whilst the remaining four blocks received no bids. The blocks Mazar-I-Sharif and Sanduqli were awarded to the consortium comprising of Dubai-based Dragon Oil (40 percent)operating through two Afghan registered companies, Turkish owned Turkish Petroleum Afghanistan Limited (40 percent), and local company Ghazanfar Investments Limited (20 percent). Turkish Petroleum Afghanistan Limited operates the Mazar-I-Sharif block, while Dragon Oil (Sanduqli) Limited is the operator of the Sanduqli block.[175]

In July 2012 it was reported that Exxon Mobil was considering entering a bid for the Afghan-Tajik tender,[176] in addition to the winning firms and Kuwait Energy, India's ONGC Videsh, Brazil's Petra Energia, Pakistan Petroleum, and Thailand's PTT.[177] However, Exxon Mobil withdrew its bid four months later.[178]

3.5.4.1.4 Amu Darya Tender, 2014

In January 2014 the Ministry of Mines launched the Amu Darya tender for the exploration, development and production of hydrocarbons in the Amu Darya basin of Northern Afghanistan. A single block with a contract area of 7,131 square kilometres was offered. An indicative date for the awarding of the contract was set as August 2014. In February 2014, the Ministry announced that five firms had qualified to bid for the block.[179] The links recommended by international investment and legal firms for further information about the 2014 Amu Darya Tender are currently broken.[180] [181]

3.6 OVERVIEW OF LEGISLATION

In July 2012 draft legislation was rejected by the cabinet of the Government of Afghanistan on the perception that it was too favourable to foreign investors to the detriment of the country.[182]

New laws have been introduced since the reconciliation period, in particular the Hydrocarbon Regulations (2013) and a new Minerals Law, enacted in 2014; however, both of these fall outside the period of the current EITI Report and do not apply during the period under review.

3.6.1 MINING LEGISLATION

173 http://mom.gov.af/Content/files/Hydrocarbone%20Contracts/Abstract_of_EPSC_En.pdf
174 http://www.psg.deloitte.co.uk/NewsLicensingRounds_AF_120315.asp
175 http://www.psg.deloitte.co.uk/NewsLicensingRounds_AF_131016.asp
176 http://www.nytimes.com/2012/07/06/world/asia/exxon-mobil-signals-interest-in-afghan-oil-concession.html
177 http://www.dawn.com/news/733236/eight-firms-to-bid-for-afghan-oil-gas-exploration
178 http://www.thenational.ae/business/industry-insights/energy/afghanistan-waits-for-oil-boom
179 http://www.psg.deloitte.co.uk/NewsLicensingRounds_AF_140321.asp
180 http://www.amudaryatender.com/
181 http://www.afghanpetroleum.com/fa/index.php
182 http://www.nytimes.com/2012/07/24/world/asia/afghan-cabinet-blocks-new-mining-laws.html?pagewanted=all

Mining operations during the period were governed by the Minerals Law 2005 and the Mining Regulations 2010. A new minerals law was in draft during the period of the reconciliation but it was not adopted until 2014, and did not apply for the time of the reconciliation. The 2014 Minerals Law does contain an Article requiring compliance with EITI:-

"*The Ministry of Mines and Petroleum, the Ministry of Finance, Licence Holder, contractor and other relevant agencies shall, for the purpose of transparent and effective management of mining revenues, comply with the financial reporting requirements and standards of the Extractive Industries Transparency Initiative*." (Article 100, unofficial translation)

3.6.1.1 Law on minerals and mining regulation, 2009

Afghanistan's first market-oriented law Mineral Law was issued in 2005, and a modified version was ratified by parliament in 2009. The Law regulates the use, protection, management, and revenue generation of Afghanistan's mineral resources. It provided a framework for the development of the country's natural resources industry, inferring that the state, individuals, or private enterprises have an equal right to explore and exploit resources within the provisions of the Law.[183]

The 2005 Minerals Law states that its purpose, pursuant to the provision of Article nine of the Constitution of Afghanistan, is

- to provide for State ownership and control of Mineral Substances, and
- to provide for the procedures for the protection, management, use, utilisation, and attraction and promotion of private investment in Mineral Activities, and
- to regulate other activities connected with the foregoing.

The ownership, control, prospecting, exploration, exploitation, extraction, concentration, processing, transformation, transportation, marketing, sale, and export of mineral substances in the territory of Afghanistan, whether under or on the surface of the Earth or in its water courses fall under the jurisdiction of the 2005 law.

The law also states that all naturally occurring mineral substances and all artificial deposits of mineral substances on or under the territory of Afghanistan or in its water courses (rivers and streams) are the exclusive property of the State; and that mineral activities may be conducted in Afghanistan only by the State, unless a Person other than the state is the holder of a mineral right validly obtained in accordance with the 2005 Law.

3.6.1.1.1 *Licensing provisions*

Regulation of tenders, approval of mining contracts and "other relevant affairs" are under an inter-ministerial committee comprising:

1- The Minister for Mines and Industries, as the chairman
2- The Minister of Finance, as the deputy chairperson
3- The Minister of Economy, as member
4- The Minister of Commerce, as member
5- The Minister of Foreign Affairs, as member
6- Head of National Agency for Environmental Protection, as member.

[183] http://aeiti.af/site_files/13943504591.pdf

The government may appoint other members when needed.

Under the Law, Mining Regulations set out the conditions for

- processing applications and registration of Mineral Rights,
- execution of the technical and environmental evaluation of the applications,
- determining the forms of certifications of applications for Mineral Rights,

and other relevant situations.

Mineral Rights consist of Licences and Authorisations take the form of:-

1- Exploration Licences
2- Exploitation Licences, consisting of
    - ordinary exploitation licences and
    - small-scale exploitation licences.

Exploitation Licences are deemed to be equivalent to small-scale Exploitation Licences unless otherwise specified in the Law or the Mining Regulations.

Authorisations consist of:

1. Authorisations for Quarry Exploration;
2. Authorisations for Temporary Quarry Exploitation;
3. Authorisations for Permanent Quarry Exploitation;
4. Authorisations for Tailings Exploitation;
5. Authorisations for Artisanal Exploitation; and
6. Authorisations for the treatment,

The law explicitly forbids certain persons from obtaining mineral rights, although there is no prohibition on their owning shares in a company which obtains mineral rights. The persons named are:-

- high ranking state officials,
- magistrates,
- members of the Armed Forces,
- the Police and the Security Services,
- other public employees

Exploration Licences are valid for a period of 3 years from the date of registration by the Mining Cadastre and are renewable for 2 consecutive periods of 3 years.

The maximum term of the validity of Exploitation Licences is thirty years from the date of registration by the Mining Cadastre. Exploitation Licences are renewable as of right for consecutive periods of five years until exhaustion of the Deposits being exploited, except that the term of validity of Small-scale Exploitation Licences shall be established in the Mining Regulations, not to exceed a maximum of ten years from the date of registration by the Mining Cadastre, including renewal period.

3.6.1.1.2 Financial provisions

Holders of Mineral Rights and their sub-contractors must pay taxes, customs duty and charges, mineral royalties and other taxes in accordance with the provisions of the 2005 law and the relevant applicable laws.

Holders of Mineral Rights must present their balance sheets based on the income tax law and other applicable laws, in accordance with International Accounting Standards (IAS) as from time to time promulgated by the International Accounting Standards Board, unless provided otherwise in the 2005 law.

The Ministry of Finance is the sole public authority with jurisdiction to collect taxes and customs duty and the Ministry of Mines and Industries is the authority with jurisdiction to collect Mineral Royalties.

Royalty rates are not specified.

The 2010 Mining Regulations contain other fees, charges, penalties and requirements for bonds and other financial securities which are set out in Section 6.2.2 below.

Licence and Authorisation Holders are required to establish and maintain adequate financial assurance to ensure the rehabilitation, management and remediation of adverse environmental impacts associated with mineral activity. Financial assurance must be provided for by one or more of the following methods:

1. A trust fund in a format approved by the Ministry of Mines;
2. An irrevocable letter of credit or financial guarantee from an Afghanistan registered bank or any other bank or financial institution approved by the Ministry of Mines;
3. Insurance in a format and in an amount approved by the Ministry of Mines;
4. A performance bond in a format and in an amount approved by the Ministry of Mines;

3.6.1.1.3 Advertisement of tender process and publication of licence information

The 2010 Mining Regulations provide that announcement of bidding is to be published on the Ministry of Mines' website, national and International press and media in Dari, Pashto and English languages by the Department of Cadastre. The announcement is also to be provided to local governmental authorities by letter.

The Regulations require that no later than ten days following the execution of any mining contract, the Ministry of Mines is to publish an announcement on the government website summarising the material terms of the mining contract, including a summary of the minimum work obligations, the rate of royalties, and other material revenues and benefits that the Government will derive from the mining contract.

The website of the MOMP contains a database in English and Dari of Mineral contracts (reproduced in the Appendices to this report). Mining contracts are also published on the site in Dari.

The website has a section entitled "Tenders", although no information was contained in this section when we examined it.

3.6.1.2 Law on Mines, 2014

The Law on Mines was signed by President Hamid Karzai in August 2014 and was designed to improve the governance of the sector and improve the confidence of potential investors.[184] In particular, it was designed to remedy the stipulation in previous legislation that prevented companies turning exploration licenses into production licenses.[185] The Law also prohibits elected politicians and senior government officials from acquiring mining contracts.[186]
http://mom.gov.af/en/news/35664?
http://mom.gov.af/en/news/47712?

The Law was delayed by negotiations around the proceeds that local communities would receive from mining in their area,[187] which subsequently affected progress made on the projects at the Hajigak, Zarakhshan, and Badakhshan projects.[188] Perceived deficiencies in the Law have been noted, including the absence of transparency in the bidding process and allocation of licenses,[189] of the requirement that contracts are published in full,[190] and of clear penalties for violations of the Law.[191]

3.6.2 OIL AND GAS (HYDROCARBONS) LAW, 2009

The Hydrocarbons Laws was written specifically to encourage private investment in the oil and gas sector, and contains the types of contracts that the Ministry of Mines may enter into for hydrocarbons operations, as well as the legal, safety, and environmental obligations that contractors must follow.[192] The Law states that contracts must be awarded subject to the completion of a public, transparent, and competitive tender process managed by the Ministry of Mines & Petroleum.[193] The Law also states that, in the event of a tie between two bidding companies on the basis of their proposed royalty rate and exploration programme, the contract will be awarded to the bidder with an Afghan partner.[194]

3.6.2.1 General

The Hydrocarbons Law regulates the affairs related to determining the ownership and control of the State over oil and gas (Hydrocarbons), preservation, utilisation, granting concession rights, execution of contracts, exploration activities, development and production of oil and gas.

The law provides that all Hydrocarbons located on or underground are the exclusive property of the State. A Contractor under an Exploration and Production Sharing Contract or a Service and Production Sharing Contract shall acquire title to a share of extracted Hydrocarbons as set out in such Contract. The residual share of extracted Hydrocarbons shall remain the property of the State, to be disposed of as appropriate. The Contractor may take, sell or export his share of produced Hydrocarbons, in accordance with the conditions laid down in the respective Contract.

The Ministry of Mines is responsible for granting a licence for oil and gas operations.

[184] http://www.theguardian.com/global-development-professionals-network/adam-smith-international-partner-zone/2014/oct/30/new-minerals-law-afghanistan
[185] http://www.irinnews.org/report/100548/afghan-mining-law-could-strengthen-armed-groups
[186] http://www.usip.org/publications/exploitation-of-mineral-resources-in-afghanistan
[187] http://www.scmp.com/business/commodities/article/1579556/new-afghan-mining-law-lacks-transparency-say-experts
[188] http://wadsam.com/afghan-business-news/pending-approval-of-afghan-mining-law-delays-4-major-mines-contracts-989/
[189] http://af.boell.org/2014/07/19/media-release-approval-weak-mineral-law-house-people
[190] http://www.globalwitness.org/library/gaps-new-afghan-mining-law-pose-threat-stability
[191] http://www.usip.org/publications/exploitation-of-mineral-resources-in-afghanistan
[192] http://www.afghaneic.com/Sheberghan%20Files/AEAI%20-%20SGFDP%20--%20Legal%20and%20Regulatory%20Analysis%20Report.pdf
[193] http://www.curtis.com/sitecontent.cfm?pageid=15&itemid=956
[194] http://www.nortonrosefulbright.com/files/us/images/publications/20121022GERBeyondtheConflict.pdf

An Inter–ministerial Commission is responsible for the regulation of affairs related to monitoring, supervision, endorsement and rejection of oil and gas contracts and other relevant issues, comprising:

- The Minister of Mines, as Chairman
- The Minister of Finance, as vice – chairman
- The Minister of Foreign Affairs, as member
- The Minister of Economy, as member
- The Minister of Commerce, as member
- The President of National Environmental Protection Agency, as member

The Government may include other members in the composition of the Inter-ministerial Commission, whenever needed.

The Inter-ministerial Commission is responsible for:

i. Monitoring the bidding process and award of the Contract.
ii. Evaluating the draft contracts developed by the Ministry of Mines.
iii. Making decisions on the signing of contracts by the minister of mines in accordance with this Law.

Responsibilities of the Ministry of Mines and Petroleum include:-

- Monitoring Hydrocarbon Operations conducted by the State administrations or any other agencies and Contractors.
- Organising proposals for participation of persons in bidding rounds.
- Concluding contracts for oil and gas operations and proposing them to the Inter-ministerial Commission for endorsement.
- Supervising the fulfilment of the terms and conditions of the Contracts for Hydrocarbon Operations and certifying the implementation thereof.
- Stipulating surface rentals and ensuring their collection.
- Determining the initial royalty rate of the Hydrocarbons and ensuring the collection of the royalties fixed as a result of the bidding.
- Awarding or cancelling oil and gas operation Licences and determine the rights and obligations attached thereto, in accordance with the provisions of this Law.
- Proposing Regulations for better implementation of this Law.
- Making announcements and arranging the bidding process.

There are two types of contracts established for the exploitation of hydrocarbons:

1. *Exploration and Production Sharing Contracts*

Under an Exploration and Production Sharing Contract, the Contractor is granted the exclusive right to explore for Hydrocarbons and, in the event of a Commercial Discovery, to develop and produce Hydrocarbons, and is entitled to the specified share from the products.

2. *Service and Production Sharing Contracts*

Under a Service and Production Sharing Contract, the Contractor is granted the exclusive right of operation to upgrade and rehabilitate Hydrocarbon production facilities including well servicing operations, providing services and Hydrocarbon production and is entitled to the specified share from the products.

Contract Bidding

- All Hydrocarbon Operation Contracts are to be awarded through public tenders.
- Bidding can be done for an exploration Contract covering one or more than one blocks or part(s) of one or more than one blocks or services for a specific oil and gas project.
- Bidding terms and fees payable by bidders for participation are determined by the Ministry of Mines.
- If there is a tie between two bidders after evaluation of their bids, the Hydrocarbon Operation Contract shall be granted to the one with an Afghan partner.

As is the case with minerals contracts, certain persons are not permitted to be granted contracts:-

- High ranking State officials mentioned in article no. 151 of the constitution,
- members of the National Assembly,
- judges and prosecutors,
- officials of the Ministries of Mines, National Defence, Interior Affairs, Foreign Affairs, General Department of National Security, working in above rank three.

Similarly to the minerals law, there is no provision that such persons may not hold shares in companies which are granted hydrocarbons contracts.

The term of an exploration contract shall be divided into two phases: an Exploration–Production phase and a Development-Production phase, as following:

1. The Exploration phase shall not exceed 10 years unless there has been a discovery of Hydrocarbon in the contract area and additional time is considered necessary for completion of the operation and assessment of the discovery. In this case, the term of the contract may be extended.
2. Where no commercial discovery is made during the exploration phase, the contract shall be terminated.
3. Wherever a commercial discovery is made, its relevant development–production phase shall not exceed 25 years from the date the discovery was made.

3.6.2.2 Financial provisions

1. Accounts

Contractors shall maintain their related accounts in accordance with the International Accounting Standards (IAS).

2. Payment of Taxes

Contractors shall be required to pay their income taxes, levies and customs duties in accordance with the provisions of applicable laws.

In order to protect contractors, the Ministry of Mines and Industries may consider financial assurances on the stability of taxes, levies, and charges, in accordance with the provisions of enforced laws of Afghanistan, in coordination with the Ministry of Finance.

3. Royalties

Contractors shall be required to pay royalties upon production of Liquid Hydrocarbons and Natural Gas in accordance with the Hydrocarbon Regulations and as set out in the applicable Contracts.

The royalty rate for the quantities of Liquid Hydrocarbons and Natural Gas, after deducting the amounts consumed in the conduct of production operations, shall be determined by the Inter-ministerial Commission as per the proposal of the Ministry of Mines.

3.6.2.3 Advertisement of tenders and publication of contracts

Under Article 2 paragraph 19 of the Hydrocarbons Law, the Ministry of Mines is responsible for making announcements and arrange the bidding process when new blocks are to be developed. No further specifics are given.

The Hydrocarbons Law provides (Article 7& that subject to the prevailing laws of Afghanistan prohibiting disclosure of State records (public registered documents), the Ministry of Mines, in compliance with the contractual conditions, may, upon request, authorise the public access to the Hydrocarbon Register without any charge and may also authorise the provision of copies of the information entered in the Hydrocarbon Register upon request and payment of a prescribed fee.

The website of the MOMP contains a copy of the Amu Darya contract in English and Dari, and a report in English entitled “Public Disclosure of the Tender Process” for the Amu Darya contract. There are also summaries in English of the Exploration and Production Sharing Contract for the Sanduqli Block and the Mazar-I-Sharif Block, both dated 8th October 2013.

The website has a section entitled “Tenders”, although no information was contained in this section when we examined it.

3.6.3 TAX LEGISLATION

3.6.3.1 Income Tax Law

Income taxes are governed by the Income Tax Law 2009. This Law is established under the authority of Article 42 of the Constitution of Afghanistan for the purpose of tax determination and tax payment, and states that tax is a compulsory payment collected from natural and legal persons for the purposes of financing of government and social welfare without the taxpayer receiving any direct goods or services from the government.

Any tax deducted or collected by the government or non-government agencies in accordance with the provisions of this Law is to be paid to a specific government (Ministry of Finance) bank account.

The tax year is the solar (Hejiri Shamsi) year which starts on the first day of Hamal (21 March) and ends on the last day of Hoot (20 March) of that year. With the permission of the Ministry of Finance, it is permissible for a taxable person to use another period as their tax year.

Tax is calculated in Afghanis: income in foreign currency is to be converted to Afghanis for purposes of taxation. The rate of conversion shall be the average of open (current) rates used by Da Afghanistan Bank to purchase such foreign money at the end of each month.

There is a section in the Income Tax Law applying to "qualifying extractive industry taxpayers" (QEIT), defined as a person that holds a mining Licence or mining authorisation or is party to a hydrocarbons contract. Amongst other provisions, this exempts from Business Receipts Tax

1. receipts of a QEIT from the sale of mineral substances (as defined in the Minerals Law, 2005) that are subject to a mining Licence or mining authorisation;
2. receipts of a QEIT from the sale of hydrocarbons that are subject to a hydrocarbons Contract; or
3. receipts of a QEIT from the sale or transfer of a mining Licence or mining authorisation or a hydrocarbons contract

The section on QEIT also provides for tax stability for a period of:

1. 5 years, in the case of a QEIT holding a mining Authorisation, commencing with the year in which the QEIT begins to hold the Authorisation;
2. 8 years, in the case of a QEIT holding a mining Licence, commencing with the year in which the QEIT begins to hold the Licence; or
3. the period of the hydrocarbons contract, in the case of a QEIT that is party to a hydrocarbons contract.

adding that the Ministry of Finance shall only apply the provisions to a QEIT where the QEIT has agreed in writing that taxable income of the QEIT shall be subject to an income tax rate of 30 per cent for the years in which the provisions of this Law are applied by the Ministry of Finance on the basis of Article 85 of the Law without regard to subsequent changes.

There is also an Income Tax Manual which contains detailed provisions relating to calculation and reporting of tax, and other matters.

3.6.3.2 Customs duties

The Customs Law and Customs Code set out the tariffs and procedures relating to customs duties.

3.6.3.3 Other taxes

Other taxes on extractive companies, including any sub-national taxes, are to be discussed further.

3.6.4 TALIBAN LAW ON MUNICIPALITIES

There is a law, passed in 2000 during the Taliban era, dealing with regulation of the *modus operandi* of the municipalities and their respective district branches[195]. A copy is included at Appendices: 10.6.

The law provides for collection of municipal charges but has no details of the nature of such charges.

3.7 PRODUCTION FIGURES

The United States Geological Survey relays the following information about the production figures of extractive industries in Afghanistan in 2012 and 2013.

[195] A copy of this law was provided to us after the AEITI MSG meeting on 10th October 2015

Commodity		**2012**[196]	**2013**[197]
Cement, hydraulic	Metric tons	37,000	40,000
Chromite	Metric tons	6,000	6,000
Coal, bituminous	Metric tons	780,000	936,000
Gas, natural			
Gross	Million cubic metres	150	160
Marketed	Million cubic metres	145	141
Gypsum	Metric tons	57,000	57,000
Marble	Metric tons	45,000	67,000
Nitrogen, as ammonia	Metric tons	50,000	76,000
Petroleum, condensate	42-gallon barrels	80,000	68,000
Salt rock	Metric tons	147,000	148,000
Talc	Metric tons	200,000	Insufficient information

3.8 ECONOMIC CONTRIBUTION

Figures provided by the Ministry of Finance summarise Afghanistan's budgetary position for 1391 (Mar-Dec 2012) and 1392 (2013):[198]

	Fiscal Year 1391	**Fiscal Year 1392**
Domestic Expenditure (US$, bn)	1.59	1.96
Operating Revenue (US$, bn)	2.67	3.58

Figures provided by the Ministry of Finance's Budgetary Directorate state the following:

	Fiscal Year 1391	**Fiscal Year 1392**
Revenue from oil transit (US$, mn)	40.00[199]	60.00[200]
Revenue from Aynak Copper Mine (US$, mn)	54.00[201]	50.00[202]
Total budget for Ministry of Mines (US$, mn)	74.89[203]	44.90[204]

[196] http://minerals.usgs.gov/minerals/pubs/country/2012/myb3-2012-af.pdf
[197] http://minerals.usgs.gov/minerals/pubs/country/2013/myb3-2013-af.pdf - revises some 2012 figures
[198] http://mof.gov.af/Content/files/MOF%20ANNUAL%20PERFORMANCE%20REPORT%20FY%201392%20RIMU%20FINAL(1).pdf, p.1
[199] http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1391%20Budget/1391%20Budget%20Sent%20to%20Parliament%20-%20April%2010%202012_CP.pdf, p.28
[200] http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1392/1392%20English%20National%20Budget%20Approved%20_%20Final%20_%20CP.pdf, p.33
[201] http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1391%20Budget/1391%20Budget%20Sent%20to%20Parliament%20-%20April%2010%202012_CP.pdf, p.28
[202] http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1392/1392%20English%20National%20Budget%20Approved%20_%20Final%20_%20CP.pdf, p.33
[203] http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1391%20Budget/1391%20Budget%20Sent%20to%20Parliament%20-%20April%2010%202012_CP.pdf, p.23
[204] http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1392/1392%20English%20National%20Budget%20Approved%20_%20Final%20_%20CP.pdf, p.29

The World Bank reports that in 2012 the country's extractive industries contributed 1.8 percent of the national Gross Domestic Product, representing an increase on the 0.6 percent contribution in 2010.[205] Based on the World Bank's report that the Gross Domestic Product of Afghanistan in 2012 was USD 20.5 billion,[206] the total value of Afghanistan's extractive industries was USD 369 million.

In January 2014, Afghan Deputy Minister of Mines Nasir Ahmad Durrani stated that in 1391 (Mar-Dec 2012), the revenue from mining was more than USD 90 million, whilst for the nine months 21 March 2013 (start of solar year 1392) and 8 January 2014 total revenue was US$50 million.[207]

Other reports state the combined revenue from the mining and energy sectors in 2012 was USD 150 million.[208] The Centre for Conflict and Peace Studies Afghanistan reports that the annual income of Afghanistan from current contracts with international mining companies is USD 30 million.[209]

The Central Statistics Organization of Afghanistan reported that by 2013/14, the total value of mining in the country had declined by 3.9 percent compared to 2012/13.[210] In 2013, Global Witness stated that the no more than 3.4 percent of Afghan government revenues were from mining, representing a decline on the previous year.[211]

In 2013, 14.2 percent of the total national budget for Afghanistan was allocated to developing infrastructure and the natural resources industry.[212] Under the new Law on Mines (2014), five percent of mining income will be returned to the provinces where the extraction of resources took place.[213]

The Fiscal Policy Directorate (FPD) reports that the mining and quarrying sector comprised around 0.9% of GDP in the period and estimates the government income from extractive industries in 2011 amounted to c 2.3% of domestic revenues (including bonus payments). The FPD said that the data for 2012 only includes major revenue lines such as royalties, and that these contributed around 0.7% of domestic revenues.

FPD reported that export data does not analyse extractive industries' contribution and that there is currently no information on employment in the sector.

3.8.1 FUTURE ECONOMIC CONTRIBUTIONS

The expected contribution to Afghanistan's budget through royalties and taxes from the mining sector is around US$250 million annually for the next 25 years.[214] The World Bank believes that the value of revenue alone from extractive industries could reach between two and four percent of GDP by the

[205] https://openknowledge.worldbank.org/bitstream/handle/10986/16510/770830REVISED0box377289B00PUBLIC00.pdf?sequence=1
[206] http://databank.worldbank.org/data/views/reports/tableview.aspx
[207] http://mines.pajhwok.com/news/mining-revenue-dips-40pc-solar-year
[208] http://www.rferl.org/content/afghanistan-mining-industry-oil-resources-economy/25124104.html
[209] http://www.caps.af/Doc/Economic%20Growth%20opportunities%20in%20Afghanistan%20final.pdf
[210] http://cso.gov.af/Content/files/Industrial%20Development%20Part%20One.pdf
[211] http://www.globalwitness.org/sites/default/files/Afghanistan%20Minerals%20Oil%20and%20Conflict.pdf
[212] https://openknowledge.worldbank.org/bitstream/handle/10986/16510/770830REVISED0box377289B00PUBLIC00.pdf?sequence=1
[213] http://www.scmp.com/business/commodities/article/1579556/new-afghan-mining-law-lacks-transparency-say-experts
[214] https://openknowledge.worldbank.org/bitstream/handle/10986/16510/770830REVISED0box377289B00PUBLIC00.pdf?sequence=1

early 2020s, depending on the number and scale of the exploited mines and the pace of their development.[215]

3.8.1.1.1 Future Individual Economic Contributions

Analysis from the World Bank suggests that the Hajigak and Aynak projects have the potential to generate substantial economic returns. In 2013, World Bank staff estimated that revenue from these would be USD 322 million a year between 2011 and 2015 (USD 205 million and USD 117 million from Aynak and Hajigak respectively), primarily in signing bonuses, and over USD 900 million per year on average, until 2031.[216] The Bank suggests that further developing 11 other mines has the potential to increase revenue to USD 1 billion a year, on average, from 2012 to 2031.[217] These figures are based on the assumption that during the construction phase mining companies pay no significant taxes except the bonus payments; during the operating phase, tax collection is estimated based on mining profit forecasts.

Emeralds from Panjshir are presently worth approximately USD 150 million a year, though the majority are smuggled uncut out of the country to Pakistan and India, yielding little in terms of tax revenue or extra jobs if they were processed and marketed in Afghanistan. Industry experts are reported to believe Panjshir emeralds would be worth up to USD 1 billion if they were managed inside Afghanistan.[218]

The United States Geological Survey's estimate that Afghanistan has 1.9 billion barrels of technically recoverable crude resources is comparable to Equatorial Guinea, with proven resources of 1.7 billion barrels and produces 250,000 barrels of oil each a day, according to BP. Should oil prices return to approximately USD100 a barrel, an output of 250,000 bpd would earn Afghanistan about USD 9.1 billion a year.[219]

3.8.1.1.2 Employment

Nationally, eight percent of Afghanistan's employed population was working in construction, mining, and quarrying between 2007 and 2008.[220]

The World Bank projects that the Aynak mine could create 4,500 direct jobs, 7,600 indirect jobs, and 62,500 induced jobs, once operations reach the projected capacity of 250,000 tons of copper each year; and suggests that the Hajigak project will have a similar impact upon employment.[221]

The Fiscal Policy Directorate reported that there is currently no information on employment in the sector.

---

[215] https://openknowledge.worldbank.org/bitstream/handle/10986/16510/770830REVISED0box377289B00PUBLIC00.pdf?sequence=1
[216] http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/03/08/000333037_20130308111833/Rendered/PDF/758480PUB0EPI0001300PUBDATE02028013.pdf
[217] http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/03/08/000333037_20130308111833/Rendered/PDF/758480PUB0EPI0001300PUBDATE02028013.pdf
[218] http://www.aljazeera.com/programmes/peopleandpower/2014/05/afghanistan-hidden-gems-20145211098919141.html
[219] http://www.businessinsider.com/this-energy-company-hopes-to-find-oil-in-afghanistan-2012-9#ixzz3O9jdV5yb
[220] http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/03/08/000333037_20130308111833/Rendered/PDF/758480PUB0EPI0001300PUBDATE02028013.pdf
[221] http://www.worldbank.org/en/news/feature/2013/04/02/qa-aynak-mining-afghanistan

3.9 GOVERNMENT INSTITUTIONS

3.9.1 MINISTRY OF MINES AND PETROLEUM

The Ministry of Mines and Petroleum is directly responsible for making policy and regulating the mining industry. The Ministry has four key portfolios: policy, geo-scientific, regulatory, and finance; it also houses the Afghanistan Geological Survey. The Ministry is presently engaged in extending its authority throughout the country by reforming its directing units in 22 different provinces.[222] In 1391 (Mar-Dec 2012), the subsidiaries of the Ministry of Mines and Petroleum had total revenue of USD 50.3 million, and made a profit of USD 32 million.[223]

The Ministry is authorised to grant small licenses and contracts to companies in Afghanistan. Intermediate-sized contracts are decided by a Ministers' commission and large contracts are decided by the Ministers' Council.[224]

In cooperation with the Afghan Gas Enterprise, the Ministerial department Northern Directorate of the Hydrocarbon Unit manages hydrocarbon operations in Afghanistan.[225]

3.10 STATE OWNED ENTERPRISES

3.10.1 NORTHERN COAL ENTERPRISE

The Northern Coal Enterprise is listed as a Public Enterprise of the Ministry of Mines and Petroleum by the Central Statistics Organization of Afghanistan.[226]

It is established by Charter and the assets of the Enterprise are owned by the State according to the English translation of the Charter).. The Enterprise is managed by a Supreme Council, chaired by the Minister of Mines and Petroleum, with a Deputy Director from the Ministry of Finance and with five other members. There is an Operations Board with executive responsibilities.

The government-run Northern Coal Enterprise is the biggest public sector enterprise still operational in Afghanistan.[227] Whilst the Enterprise has no private rivals, its deposits are currently being tendered out or re-packaged as part of bigger extraction licences (for example, one coal deposit forms was given to the MCC-JCL Aynak Minerals as part of their winning bid for the Aynak copper deposit).[228]

In 1391 (Mar-Dec 2012), the Northern Coal Enterprise had revenue of USD 31.6 million, and made a profit of USD 26.6 million.[229]

3.10.2 THE AFGHAN GAS ENTERPRISE

The Afghan Gas Enterprise is listed as a Public Enterprise of the Ministry of Mines and Petroleum by the Central Statistics Organization of Afghanistan.[230]

---

[222] http://aeiti.af/site_files/13943504591.pdf
[223] http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy
[224] http://mines.pajhwok.com/ministry-ofmines-and-petroleum
[225] http://mom.gov.af/en/page/4750
[226] http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy
[227] http://aeiti.af/site_files/13943504591.pdf
[228] http://aeiti.af/site_files/13943504591.pdf
[229] http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy

The assets of the Enterprise are owned by the government (according to the English translation of the Charter).

It is the country's national gas utility agency and operates wells in four gas fields producing a combined 576,000 cubic metres of gas each day, currently distributing gas through a small network of pipelines in Jowzjan province[231] almost all of which is supplied to the Northern Fertilizer and Power Plant.[232].The Enterprise also acts as the Government of Afghanistan's representative in the international consortium created with Turkmenistan, Pakistan, and India to own and construct the TAPI pipeline.[233]

In 1391 (Mar-Dec 2012), Afghan Gas had revenue of USD 5 million and made a profit of USD 1.9 million.[234]

3.10.3 THE AFGHAN EMERALD COMPANY

The Afghan Emerald Company in Kabul is responsible for the sorting, pricing, and taxing of lapis and other precious stones, and is the means by which the Government of Afghanistan collects taxes on gemstones. All gemstones must be transported through the company in Kabul before export. The company collects taxes based on a 15 percent royalty on the value of the material. The Afghan Emerald Company has not been identified as a contributor, either for non-tax or tax revenues, to Government.

3.10.4 KODE BARQ

This company produces electricity and fertilisers from gas.

This company was included in the Third Report. However, since it is not an extractive company, but rather a processor of extracted materials, the MSG decided it should not be included in the current Report.

3.10.5 MAZAR-E-SHARIF FERTILIZERS AND ELECTRICITY

The Northern Fertilizer and Power Plant facility is listed as a Public Enterprise of the Ministry of Mines and Petroleum by the Central Statistics Organization of Afghanistan.[235] The Mazar-e-Sharif facility has the capacity to produce 48MW of electricity, though requires "rehabilitation" in order to reach this capacity.[236] In June 2011, United States Ambassador to Afghanistan Karl Eikenberry committed to providing USD 40 million to restoring the output of the plant, which at the time was only operating at 20 percent capacity.[237] In 1391 (Mar-Dec 2012), Mazar-e-Sharif Fertilisers and Electricity had revenue of USD 13.7 million, and made a profit of USD 3.5 million.[238]

3.10.6 JABULSARAJ CEMENT COMPANY

[230] http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy
[231] http://www.wsj.com/articles/SB10001424127887324439804578115023494349946
[232] http://adb.org/projects/details?page=details&proj_id=47018-001
[233] http://www.gtreview.com/trade-finance/global-trade-review-news/2014/November/Tapi-gas-pipeline-company-launched_12085.shtml
[234] http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy
[235] http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy
[236] http://mfa.gov.af/Content/files/08%20-%20RECCA%20V%20Projects%20with%20Brief%20Summaries.pdf
[237] http://ens-newswire.com/2011/07/05/powers-of-darkness-in-northern-afghanistan/
[238] http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy

The Jabulsaraj Cement Company is listed as a Public Enterprise of the Ministry of Mines and Petroleum by the Central Statistics Organization of Afghanistan.[239] Reports from the Ministry suggest that the company's factory is no longer operational due to a lack of raw materials and power,[240] and the USGS suggests that it has not been operational for "some years".[241]

In January 2013, media reports indicated that management of the plant would be put out to tender,[242] and the process began in September 2013.[243] In 1391 (Mar-Dec 2012), Jabulsaraj Cement Company is reported by the Central Statistical Office of Afghanistan as having revenue of USD 39,000 and making a loss of USD 34,000.[244]

3.11 LICENSING REGIME

3.11.1 OIL AND GAS

Oil and gas licensing is carried out under an independent licensing process[245] where bidders compete according to their proposed royalty regime and exploration programme.[246] The 2012 Afghan-Tajik tender was he process was assisted by New York-based international law firm Curtis, Mallet-Prevost, Colt & Mosle as the transaction advisor monitored by The Marx Group, a Virginia-based legal and audit firm.[247]

Afghan parliamentarians do not receive regular reports on licensing processes, and they can be denied access to certain contracts deemed confidential. Licensing decisions cannot be appealed.[248]

239 http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy
240 http://mom.gov.af/Content/files/Jabul_Seraj_Limestone.pdf
241 http://pubs.usgs.gov/of/2011/1204/pdf/16B.pdf
242 http://www.globalcement.com/news/item/1382-afghan-cement-plants-to-return-to-tender
243 http://mom.gov.af/en/news/24553
244 http://cso.gov.af/en/page/economy-statistics/economy/mining-and-energy
245 http://www.resourcegovernance.org/countries/eurasia/afghanistan/overview
246 http://www.nortonrosefulbright.com/files/us/images/publications/20121022GERBeyondtheConflict.pdf
247 http://mom.gov.af/en/news/cabinet-approves-afghan-tajik-oil-and-gas-contracts
248 http://www.resourcegovernance.org/countries/eurasia/afghanistan/overview

4 OVERVIEW OF FLOWS REPORTED AND REPORTING ENTITIES

At its meeting on 10th October 2015, the MSG decided to include the flows set out in Section 4.1 below, and to request other information as set out in Section 4.2 below. The MSG decided that the entities required to report were as set out in sections 4.3 (government) and 4.4 (companies).

4.1 RECONCILED FLOWS

4.1.1 MINISTRY OF FINANCE – REVENUE DEPARTMENT

1. Income Tax
2. Business Receipts Tax
3. Withholding tax on salaries
4. Withholding tax on rents
5. Withholding tax on contracts
6. Withholding tax - other items
7. Penalties
8. Others
    a. Transferable Share
    b. Shares
    c. Other
    d. Dividends from SOEs

4.1.2 MINISTRY OF FINANCE – CUSTOMS DEPARTMENT

9. Import Duties
10. Fixed tax on Imports
11. BRT

4.1.3 MINISTRY OF MINES AND PETROLEUM

12. Royalty
13. Premium and Bonuses
14. Bid Fee
15. Penalties and fines
16. Land Fee
17. Licence Fee
18. Permitting Fee
19. Bid and other security
20. Lease of Government Land
21. Land Fee Building
22. Miscellaneous Revenues

4.2 OTHER FLOWS AND INFORMATION REPORTED

4.2.1 INFRASTRUCTURE PAYMENTS

Requirement 4 (d) of the EITI Standard requires the multi-stakeholder group and the Independent Administrator to consider whether there are any agreements, or sets of agreements involving the provision of goods and services (including loans, grants and infrastructure works), in full or partial exchange for oil, gas or mining exploration or production concessions or physical delivery of such commodities. No agreements were highlighted during discussions with stakeholders.

In line with the focus on identifying and obtaining information on major flows from the sector, companies were asked to give details on the reporting templates of such payments, as a means of gathering information to be followed up in subsequent reports. These flows are to be declared by the paying entity, but information was not requested from receiving entities and flows reported have not been reconciled.

4.2.2 SOCIAL EXPENDITURES

Requirement 4 (e) of the EITI Standard states that where material social expenditures by companies are mandated by law or the contract with the government that governs the extractive investment, the EITI Report must disclose and, where possible, reconcile these transactions; and where reconciliation is not feasible, the EITI Report should include unilateral company and/or government disclosures of these transactions.

Social expenditures are to be declared by the paying entity, but information was not requested from receiving entities and flows reported were not to be reconciled.

4.2.3 PRODUCTION

MOMP and companies were requested to provide information on production during the period.

4.2.4 OWNERSHIP

Companies were requested to provide basic information on ownership in the period, being:-

- Names of shareholder(s)*
- Number of shares held*
- Total shares in issue

*for each shareholder holding more than 10% of the shares in issue

In the circumstances prevailing in Afghanistan, and challenges with obtaining financial data, the MSG decided that to request information on full beneficial ownership would divert effort from other areas, to their detriment. Basic information only on ownership has been requested.

4.3 GOVERNMENT ENTITIES

The government ministries receiving the flows selected for inclusion in the report are as follows:

1. Ministry of Finance – Revenue Department
    a. Large Taxpayers Office (LTO)
    b. Medium Taxpayers Department (MTO)
    c. Small Taxpayers Department (STO)
2. Ministry of Finance – SOE Department
3. Ministry of Finance – Customs Department
4. Ministry of Mines and Petroleum
    a. Revenue Department
    b. Cadastre Department

These government departments were selected by the MSG to report receipts from reporting companies. In addition, the Petroleum Department is included since it is responsible for reporting production data for oil companies.

4.4 COMPANIES

The MSG selected companies based on information provided by MOMP and MOF on receipts from the sector (MOMP) or from major companies (MOF). The companies selected, and a summary of the information from government on which this was based, are set out in the table below. See further discussion in Section 5.5.2.

	1391 AFS	1392 AFS
MJAM MMC - JCL Aynak Minerals Company Ltd.	2,561,139,258	26,731,327
Northern Coal Company*	1,142,581,816	352,987,000
Afghan Gas Enterprise*	105,156,261	30,129,000
CNPCI-Watan Oil and Gas Afghanistan Limited	29,461,918	398,959,972
Kushak Brothers Company	34,407,428	44,180,609
Meesaq Sharq Company	13,546,213	41,471,084
Hashami Groups	75,790	101,575,848
Turkish Petroleum	1,283,715	61,535,024
Dragon Oil	1,278,221	63,755,187
AIC Coal	5,010,929	68,173,903
AIC Cement	2,482,443	21,663,574
Subtotal - reporting companies	**3,896,423,992**	**1,211,162,528**
	98.8%	**96.9%**
Other companies	45,331,599	38,276,791
Total	**3,941,755,591**	**1,249,439,319**

Table 4.1

* State owned enterprise

5 APPROACH, METHODOLOGY AND WORK DONE

This chapter presents a summary of our approach and methodology, and findings during the scoping phase of the assignment, under the following headings.

5.1	Evolution of the assignment
5.2	Scoping of reconciliation
5.3	Legislation in force during the reconciliation period
5.4	Findings
5.5	Materiality
5.6	Assurance
5.7	Templates and training
5.8	Elements of the reconciliation work

5.1 EVOLUTION OF THE ASSIGNMENT

The Fourth AEITI Report was initially to comprise a scoping study and a report covering the 9 month 1391 fiscal period (20th March – 20th December 2012). Following initial scoping work and in an effort to bring reporting up to date, the period covered was extended to include the 12 month 1392 fiscal period (21st December 2012 – 20th December 2013). With assistance from donors, AEITI also took the opportunity of the extended time to participate in additional training on EITI and extractive sector operation and governance as part of preparatory work for the Fourth Report. We provided some input into the training programme separately from our role as Independent Administrator.

Milestones in preparation of the report were:-

Dec-14	Initial contract for Inception and Fourth Report (fiscal 1391)
Feb-14	Initial Scoping Report
Feb-14	[Training workshop sponsored by World Bank]
May-14	Inception Report
Jun-14	[Training workshop sponsored by GIZ]
Sep-15	Contract amendment to extend Fourth Report (fiscal 1392)
Oct-15	Updated Inception Report
Oct-15	Approval by AEITI MSG of scope for the Fourth Report
Jan-16	Draft Fourth AEITI Report

5.2 SCOPING OF RECONCILIATION: WORK DONE

In order to examine the size and nature of receipts by government from the extractive sector, we:-

- reviewed legislation and contracts applicable to the extractive sector
- reviewed publicly available statistics on production and the contribution of the sector to the country's revenues
- examined information on licensed companies from MOMP
- reviewed information from MOMP, MOF Revenue and MOF Customs on amounts received from all extractive companies, with major companies and SOEs shown separately
- reviewed the government accounts (Qatia) for the periods

- reviewed information from other public sources, including the Baseline Study commissioned by AEITI and previous Afghanistan EITI reports
- met with stakeholders, including MOF, MOMP, companies, civil society and donors

We did not carry out any procedures to determine that information provided was complete or accurate, and comment elsewhere on the information provided by government bodies.

5.3 LEGISLATION IN FORCE DURING THE RECONCILIATION PERIOD

An overview of the legislation applying to the extractive sector is set out in Section 3.5.

5.4 FINDINGS

5.4.1 FLOWS TO GOVERNMENT FROM THE EXTRACTIVE SECTOR

5.4.1.1 National Government

Based on this review, and after consultation with MOMP and MOF and other stakeholders, flows from the extractive sector to central government ministries were identified as set out in Tables 5.1 and 5.2, which follow. At this stage, no determination was made of whether any of these flows was not material and it was decided to collect information on all of the flows.

Payment type	Paid to	Governing law/ contract	Description
Income tax	MoF	Income Tax Law 2009	The tax imposed on the income from Afghan sources of all persons, corporations, limited liability companies, and other entities whether in Afghanistan or abroad, and on the foreign income of residents of Afghanistan in accordance with this law and its regulations. The percentage of Income tax to be paid is 20%.
Business Receipt Tax	MoF	Income Tax Law 2009	Business receipts tax is a tax which is imposed on total gross income (sales) before any deduction according to the rates prescribed by Article 66 of this Law. Article 66 sets a rate of 2% BRT, imposed on gross receipts of all types of income of corporations and limited liability companies and individuals whose monthly income is more than AFS 750,000 (Article 66) In addition, persons who import goods shall be subject to two percent business receipts tax on the cost price of the imported goods including custom duty. The business receipts tax will be treated as an advance payment for business receipts tax payable.
Withholding tax	MoF	Income Tax Law 2009	Profit or non-profit legal persons formed under the laws of Afghanistan shall be required to withhold income tax as follows: Twenty percent tax from interest, dividends, royalties, prizes, rewards, lotteries, bakhshishis (gratuities), bonuses, and service charges according to the provisions of this Law.
Salary Withholding	MoF	Income Tax Law 2009	Legal persons and natural persons (individuals) with two or more employees during any month of the tax year are required to withhold tax from employees whose income exceeds the threshold set out in the law,
Withholding tax on rents	MoF	Income Tax Law 2009	The prepayment of landlords' income tax. The legal entities conducting business in the territory of Afghanistan at the rented property are required to withhold this tax. The landlord is responsible for reporting rental income in his annual income tax declaration and paying tax annually at appropriate rates depending on entity type. Payments of rent for buildings and houses which are rented to legal entities or individuals and are used for business purposes or offices where the monthly rent is more than 15,000 Afghanis are subject to a 20% income tax.
Withholding tax on contractors	MoF	Income Tax Law 2009	According to Article 72, entities and individuals providing supplies, materials and services and conducting construction under contract are subject to a fixed tax of 7% (if they do not hold a business licence) or 2% (if they hold a business licence). The tax is withheld from the amount payable to the contractor and paid over to the Revenue Service by the company to which the services have been provided.
Witholding tax on other items	MoF	Income Tax Law 2009	The Income Tax law provides that income tax is to be withheld at the rate of twenty percent from interest, dividends, royalties, prizes, rewards, lotteries, bakhshishis (gratuities), bonuses, and service charges.
Fixed tax on imports	MoF	Income Tax Law 2009	Persons who import goods and have a business licence shall be subject to two percent fixed tax on the total cost, including custom duties, of the goods imported. The tax paid shall be allowed as a credit in the calculation of the person's annual income tax assessment in accordance with the provisions of this Law. Persons who import goods without having a business licence are subject to three percent fixed tax on the total cost, including customs duties, of the goods imported in lieu of income tax. Persons who import goods and have an interim business licence but do not file their returns of income to the Ministry of Finance are subject to three percent fixed tax on the total cost, including customs duties, of goods imported in lieu of income tax. The tax is paid at the customs house where customs duties on the goods are paid
Penalties and additional assessments	MoF	Income Tax Law 2009	Chapter 16 of the Income Tax Law 2009 provides for additional taxes and tax penalties when taxpayers fail to meet their obligations under the tax law. These additions to tax are for failure to file a tax return on time, failure to pay the tax on time, failure to maintain adequate books and records, failure to withhold tax when required, and failure to obtain a Taxpayer Identification Number (TIN).

Table 5.1: *Flows to MOF from extractive companies*

Payment type	Paid to	Governing law/ contract	Description
Royalty	MoMP	Mineral Law 2005	Royalty, also known as private sector taxes, is a payment for the use of natural resources. Royalties are collected by the MOMP and paid to the State Treasury. Royalties shall be paid in USD or such other currency as may be mutually agreed.
Surface fee	MoMP	Mineral Law 2005	Surface fees are collected by the Mining Cadastre and paid to the State Treasury. "*Surface Rent*" means the fees of the demarcated area of the Mining Contract, the payment conditions & duration of which shall be established in the mining regulations.
Surface rentals	MoMP	Hydrocarbons Law	(1) Contractors shall pay surface rentals for the land used by them to the owner or occupier of the contract area. (2) The rental per hectare of land shall be specified in the Hydrocarbon Regulations.
		Amu Darya PSC	Payable at defined rates relating to the surface area of the concession
Licence Fee	MoMP	Mineral Law 2005	The fees paid to government for the commencement of exploration or retention of a licence or concession, or for the leasing of licence or concession area.
Permitting Fee	MoMP	Mining Regulations*	The entities should pay a permitting fee if they perform exploitation activities. It should be conducted in accordance with existing geological maps & not proceed without legally required permits and certifications issued by the relevant government authorities that include but are not limited to environment, social protection and health and safety.
Bid Fee	MoMP	Mining Regulations*	Mineral rights are obtained through a bidding process and, as of law, the bidding procedures, duration, the terms and conditions, and other related issues of bids shall be provided in the approval of the authorised body. The bidder, either personally or through its duly authorised representative, can request for an exploitation licence application which shall be accepted only upon payment of the required bid fees and bid bonds to the MOMP.
Bid and other security	MoMP	Mining Regulations*	A bond or security may be required to accompany a bid (e.g. in support of the Exploration Work Programme),forfeited if the bid is withdrawn, or if other conditions of the licence/PSC are not met
Penalties and fines	MoMP	Mineral Law 2005 Mining Regulations	See note below

Table 5.2: *Flows to MOMP from extractive companies*

Penalties and fines may be levied for various matters. The Minerals Law empowers the Mining Inspectorate to issue penalties and fines under the law.

The Mining Regulations 2010 includes provision for fines for

- failure to make a royalty return on time,
- making false statements in connection with a licence application,
- processing minerals without a licence,
- undertaking a survey or exploration without a licence,
- violation of licence terms,
- violation of environmental regulations

Penalties/fees for overproduction were reported by both government and companies in the Third Report; however, we did not find any specific reference in the legislation to this item and after discussion with MOMP and companies, it was concluded that these amounts were in fact part of royalty payments.

5.4.1.2 Sub-national government

There has been limited engagement with sub-national government and the financial flows from the extractive sector to sub national government are not well understood, although it is likely that many of the flows are not sector specific. In addition, there are complexities in collecting information from municipalities. See discussion under materiality (section 5.5) and recommendations (section 8).

5.4.2 LICENSED COMPANIES

Cadastre records normally provide a basis for identification of extractive companies, and we accordingly reviewed the available data. We also obtained an interim overview on the status as at September 2015 of the project to reform the cadastre (see Section 5.4.3.2), which suggests that the records are not yet sufficiently reliable to form the basis for a comprehensive identification of companies operating in the sector.

5.4.2.1 MOMP published information

Over 300 contracts of various statuses are published on the Ministry of Mines and Petroleum Database. A status is assigned to each contract as follows:-

Status	# contracts
Active	82
Extended	24
To be extended	1
No status listed	82
Sub total	**189**
Cancelled	48
Expired	28
Suspended	37
Total	**302**

Table 5.3

The minerals for which contracts are not listed as cancelled, expired or suspended may be summarised as follows:-

Mineral	# contracts
Bentonite	1
Cement	1
Chromium	0
Coal	7
Construction Stone	79
Copper	1
Chromite	1
Gold	2
Gravel and Sand	1
Gravel Containing Soil	16
Gypsum	23
Marble	6
Mountain Gravel	2
Rukham Stone	2
Salt	4
Sand	21
Sea Gravel	5
Soil Gravel	2
Stone	15
Total excluding cancelled, expired and suspended	**189**

Table 5.4

The website of the Ministry of Mines and Petroleum displays the texts of 242 different contracts in minerals including gold, gravel, gypsum, salt, stone, sand, cement, and coal. The majority of these contracts are for smaller operations and are only published in Dari. The details of all mining activities held on the website are located in 16 of Afghanistan's total of 34 provinces, and are concentrated in the north-east of the country. There are no records that cover the south-eastern provinces.

The website also publishes an executive summary of the contract signed with the consortium "MCC", composed of the China Metallurgical Group Corporation and Jiangxi Copper Company Limited.[249] The summary specifically refers to the requirement to comply with and uphold the principles of EITI. The AEITI Secretariat provided us with a copy of the full contract, and a link to the published document on the MOMP website, although we have been unable to access the website ourselves. No mention of EITI is apparent in the other contract documents.

The 2014 Minerals Law does contain an Article requiring compliance with EITI:-

"*The Ministry of Mines and Petroleum, the Ministry of Finance, Licence Holder, contractor and other relevant agencies shall, for the purpose of transparent and effective management of mining revenues, comply with the*

249 http://mom.gov.af/en/page/1392

financial reporting requirements and standards of the Extractive Industries Transparency Initiative." (Article 100, unofficial translation)

The reliability of the information extracted from published MOMP data has not been examined.

During the Inception period, MOMP gave details of companies holding licences and contracts. We noted that one company, Khoshak Brothers, held two licences but only had one contract. MOMP Revenue Department said that there is a rule in mining law that each extractive company has the rights to receive three contracts from MoMP on one licence and report to MoMP through one licence. Khoshak Brothers had received two contracts from MoMP on one licence and reported back to MoMP accordingly.

However, the Minerals Law 2005 (section 26.1) and the Mining Regulations 2010 (Section 29) state that a contract is required before a licence is issued. This implies that there will not be more than one contract for each licence. The explanation from MOMP suggests that there may be practices in place which differ from those permitted under the legislation. We note that in the case of the Khoshak Brothers, the licences are in different provinces, which makes the explanation offered by MOMP difficult to understand.

5.4.2.2 Cadastre consultancy project

The World Bank is assisting[250] the Ministry of Mines and Petroleum (MoMP) and the National Environmental Protection Agency (NEPA) in further improving their capacities to effectively regulate Afghanistan's mineral resource development in a transparent and efficient manner, and foster private sector development.

The consultants have identified a number of issues, including:-

- Record keeping of current mining licences and the associated post-issue management are not up to date.
- There is a problem resulting from the division between the Central and Provincial cadastre offices. The latter accept applications, process and issue licences. Coordination, standardisation and training needs to be addressed in the provincial cadastre offices.
- There are issues with record keeping. There is no archive department. Files relating to mineral licences are scattered around the Dept of Cadastre.

Of particular relevance to the ability of the MOMP to provide reliable financial data are the consultants' observations on financial reporting and record keeping:-

- Reports on the income derived from the extractive industry are compiled by the Dept of Revenue in the Central Cadastre Dept and sent to MoMP finance dept. They only reflect operations that are licensed through central cadastre office. Other operations include:
  a. State Owned Operations such as Northern Coal
  b. Small mining enterprises controlled through the Dept of Small Mining (situated in AGS)
  c. Provincial Authorities
  d. Extractive operations licensed by Provincial Governors. It is known that Provincial Governors issue "licences" outside of MoMP control.

[250] through the Second Sustainable Development of Natural Resources Project (SDNRP II)

Finally, it is observed that the Mine Verification Project would help to establish the extent of the extractive industry in the country, and that this is likely to require at least two years.

5.4.2.3 Conclusion

The report on the cadastre, and the findings of the AEITI mission to provincial offices (see Section 5.5.3.1), indicate that the current central records may not be relied upon as a complete and reliable record of extractive companies in Afghanistan.

5.4.3 TOTAL RECEIPTS FROM THE SECTOR

As part of the exercise to identify material flows, MOF and MOMP were requested to provide details of amounts received from all extractive companies during 1391 (Mar-Dec 2012) and 1392 (2013), and to identify payments by large and medium companies separately.

This exercise proved challenging for the reasons summarised below, and there was more than one iteration to produce the figures used in the materiality determination. We did not audit the figures provided nor perform any checks for completeness, and we did not validate the data other than by high level comparison with previous EITI reports and carrying out checks on information provided for internal consistency in that information. The assistance of the AEITI Secretariat in collating and summarising data from MOMP and MOF is gratefully acknowledged.

5.4.3.1 Manual records

Records in MOF and MOMP are kept manually and there was considerable effort required to produce reports of receipts and other information for the EITI report, and there were differences between information contained in reports which should have been consistent. Production of total receipts required several iterations between the AEITI Secretariat and the Ministries, and further discussion during the training workshops before the version used for the materiality determination was finalised.

Records in provincial government offices are also manual and visits by the AEITI Secretariat and our own staff noted that the systems did not appear to be robust.

5.4.3.2 MOMP

The manual nature of MOMP records and the sharing of responsibility between different departments (Cadastre, Revenue) meant that some effort was required to summarise and produce the requested templates for receipts from the sector. The required level of granularity – by company and by major flow – was not achieved initially, but following some interactions with ourselves and the AEITI Secretariat – including at the Dubai workshops – total figures were reported.

5.4.3.3 MOF

MOF does not identify companies by sector and was not able to respond to a request to provide information solely on extractive companies. It was agreed that MOF would provide receipts only for the companies identified by the MOMP. This meant awaiting completion of the collection of data by MOMP (above).

The manual nature of MOMP records and the sharing of responsibility between different departments (Large Taxpayers Office, Medium Taxpayers Office, Small Taxpayers Office, SOE Section, Customs

Department, Non Tax Revenue Department) meant that some effort was required in order to summarise and produce reports. In addition, changes to the coding systems since the reporting period meant that data had to be re-presented to achieve consistency. These factors contributed significantly to the time taken to produce information required for this report.

We recommend that in the short term, MOF and MOMP should consider bringing in additional professional resource to assist in the preparation of scoping and reporting data for future reports; and that a capacity evaluation and training needs assessment be undertaken, and capacity building measures be implemented so that there is an improvement in staff competence in the medium term.

5.4.3.4 Total receipts

The total receipts reported by central government were:-

	1391 (9mo) AFS	1392 (12 mo) AFS
Private companies	2,694,017,514	866,323,319
State owned enterprises	1,247,738,077	383,116,000
Total	**3,941,755,591**	**1,249,439,319**

Table 5.5

We note that the totals for 1392 (2013) do not include any dividends or profit share from SOEs; the figures for 1391 (Mar-Dec 2012) include dividends and profit share from SOEs. These figures were used in the materiality determination considered by the AEITI MSG.

5.4.4 CONTRIBUTION TO NATIONAL REVENUE

5.4.4.1 GDP and national activity

The Fiscal Policy Directorate of the Ministry of Finance provided estimates of the contribution of the extractive sector to the national economy, to the extent that information was available. They estimate that the size of the extractive sector is some AFS 10.1bn (annual figure), stated as equating to c 0.9% of GDP. However, it is not clear what is included in this figure.

The extractive sector was estimated to contribute approximately 2.3% of domestic revenue, including bonus payments. Data for 1392 (2013) only included the main revenue lines such as royalties was said to amount to AFS 0.9bn (c 0.7%).

Export data is not recorded separately, although the Directorate expected exports to be nil during the period.

The Fiscal Policy Directorate had no access to Information on employment.

5.4.4.2 Government accounts

This section deals with national revenues only; information on sub-national revenues – in total and from the extractive sector – was not available.

The Qatia Statement (National Government Accounts) is available in English on the website of the Supreme Audit Office, and includes a summary of government income as follows:-

Table 2.2: Revenue for 5 years for Financing the Operating Budget (Afs Million)

FY	Tax Revenue	Custom duties & fees	Non-Tax Revenue	Misc. Revenue	Sale of non-current assets	Social contributions	Grants	Total
1392	52,788	28,306	21,955	2,501	36	3,747	140,082	249,415
1391	38,965	21,406	18,285	254	178	2,618	65,715	147,421
1390	45,227	30,546	20,258	321	59	2,985	60,409	159,805
1389	38,925	27,705	11,495	437	108	1,808	54,466	134,944
1388	30,105	21,797	10,091	535	215	1,088	32,768	96,599

(Note – FY 1391 is a nine month period.)

It can be see that in 1391 (Mar-Dec 2012), domestic revenue (i.e. excluding grants) came substantially from tax revenue (48%) and customs duties and fees (26%); while in 1392 (2013), domestic revenue similarly came from tax revenue (48%) and customs duties and fees (26%). There is no further analysis of these numbers, and no detail of how much is produced from the extractive sector. Non tax revenue is not defined.

5.4.5 OTHER INFORMATION

In addition to the legislation and government financial information, we examined material produced by or for AEITI.

5.4.5.1 AEITI Baseline Study

The Baseline Study Report commissioned by AEITI in 2011 contains information about its authors' visits to operations in the provinces of Panjshir and Badakhshan, where mining is undertaken for emeralds and lapis lazuli respectively.

No contracts for these operations appear either in the database of contracts on the Ministry of Mines and Petroleum website. The local Directorate of Mines monitors what is a largely informal exploitation of emeralds in Panjshir but gathers a fee on material traded in the local market. According to the Report, revenue from emerald mines in Panjshir is collected after an auction to traders, whereupon the provincial Directorate of Mines will apply a fee of between 15 and 20 percent.[251]

The report states that revenue from lapis lazuli is collected via by the Afghan Emerald Company in Kabul. This entity undertakes sorting and pricing of precious stones and lapis lazuli and collects tax payment to the Government based on a 15% royalty on the value of the material. In the light of the information in the Baseline Study, we discussed the Afghan Emerald Company with stakeholders during the Inception phase but it was not identified as a contributor, either for non-tax or tax revenues, to Government. The emerald mines in Panjshir are unlicensed by the central government in Kabul, and are operated under the protection of the Massoud clan.[252]

[251] http://aeiti.af/site_files/13943504591.pdf
[252] http://www.aljazeera.com/programmes/peopleandpower/2014/05/afghanistan-hidden-gems-20145211098919141.html

Published sources confirm that gemstones continue to be mined and there are also suggestions in the press (see Appendices: 10.7) that the government receives income from gemstone mining. We did not obtain any information about government income from the gemstone sector and it is not clear to what extent, if at all, government receives revenue from these activities.

5.5 MATERIALITY

The MSG concluded on:-

a. Flows and government entities to be included in the 1391 (Mar-Dec 2012) and 1392 (2013) report (section 5.5.1)
b. Companies and SOEs to be included in the 1391 (Mar-Dec 2012) and 1392 (2013) report (section 5.5.2)
c. Sub national flows (section 5.5.3)
d. Other payments (section 5.5.4)

5.5.1 SELECTION OF FLOWS

It was decided that on grounds of practicality, only flows to central government would be included in the reconciliation.

The flows to central government identified from legislation and consultation with stakeholders are described in Section 5.4.1. The flows which the MSG determined should be included as reconciled flows for 1391 (Mar-Dec 2012) and 1392 (2013) are:

5.5.1.1 Ministry of Finance – Revenue Department

1. Income Tax
2. Business Receipts Tax
3. Withholding tax on salaries
4. Withholding tax on rents
5. Withholding tax on contracts
6. Withholding tax - other items
7. Penalties
8. Others
    a. Transferable Share
    b. Shares
    c. Other
    d. Dividends from SOEs

5.5.1.2 Ministry of Finance – Customs Department

9. Import Duties
10. Fixed tax on Imports
11. BRT

5.5.1.3 Ministry of Mines and Petroleum

12. Royalty

13. Premium and Bonuses
14. Bid Fee
15. Penalties and fines
16. Land Fee
17. Licence Fee
18. Permitting Fee
19. Bid and other security
20. Lease of Government Land
21. Land Fee Building
22. Miscellaneous Revenues

Around one-third of total flows contained in the Third Report were described as "Other Payments", and it was decided not to restrict the flows included in the current report on grounds of their individual materiality, with the intention of obtaining a better understanding of the nature of the flows reported.

5.5.2 SELECTION OF COMPANIES

The selection of companies to be included in the reconciliation was based on information provided by MOF and MOMP, and did not consider sub-national flows. These are discussed in the following section (5.5.3).

The list of companies, with the companies selected by the MSG for inclusion, is shown in Table 5.6, with the total flows to MOF/MOMP selected above from each company.

	Flows to MOF/MOMP	
	1391 AFS	1392 AFS
MJAM MMC - JCL Aynak Minerals Company Ltd.	2,561,139,258	26,731,327
Northern Coal Company	1,142,581,816	352,987,000
Afghan Gas Enterprise	105,156,261	30,129,000
CNPCI-Watan Oil and Gas Afghanistan Limited	29,461,918	398,959,972
Kushak Brothers Company	34,407,428	44,180,609
Meesaq Sharq Company	13,546,213	41,471,084
Hashami Groups	75,790	101,575,848
Turkish Petroleum	1,283,715	61,535,024
Dragon Oil	1,278,221	63,755,187
AIC Coal	5,010,929	68,173,903
AIC Cement	2,482,443	21,663,574
Subtotal - reporting companies	**3,896,423,992** **98.8%**	**1,211,162,528** **96.9%**
Other companies identified	45,331,599	38,276,791
Total	**3,941,755,591**	**1,249,439,319**

Table 5.6

The other companies identified by MOMP and/or MOF were:-

	Flows to MOF/MOMP	
	1391 AFS	1392 AFS
Afghan Brothers	0	7,200
Afghan Korea	1,958,165	1,816,361
Aks Mining Company	0	6,300
Amanaeh Mining	579,542	7,615,049
Arja Popal	0	34,861
Aryana Sazah	636,261	1,345,462
Esterlink Mining Company	2,500	0
Hevad Bradarz	13,497,537	9,853,776
Hewadwal	2,136,146	2,352,603
Pameer Badakhshan	11,000	0
Technologist	1,802,441	2,697,152
West Land { Golden Mineral Co)	24,708,007	12,518,027
Yasmeen Mining Company	0	30,000
Total other companies	**45,331,599**	**38,276,791**

Table 5.7

In determining which companies should be included, the MSG was conscious that in the circumstances prevailing in Afghanistan, inclusion of fewer companies would simplify the reconciliation process; nevertheless, the MSG wished to encourage wider participation in the EITI process and did not wish to restrict the list unduly.

The information on which the materiality decision was based was the best available, and we have commented earlier on factors potentially affecting its completeness. We also note that at the time of the determination, information on profit share and dividends from SOEs for 1392 (2013) was not available; we observe that this would tend to lead to selection of more companies (rather than fewer) from the list since companies making smaller payments would be more material.

The information from MOMP and MOF reveals that in 1391 (Mar-Dec 2012) 94% of receipts came from two companies (Northern Coal and MJAM MMC-JCL Aynak Minerals Company), while in 1392 (2013) 83% of receipts (excluding SOE dividends/profit share) came from six companies. In other words, reported government revenues derive mainly from a few large companies.

The MSG decided that companies which were material in either 1391 (Mar-Dec 2012) or 1392 (2013) should be required to report for both years and that the reconciliation should include any company which made payments in excess of AFS 25m in 1391 (Mar-Dec 2012) or ASF 15m in 1392 (2013). Adopting this approach, the reconciliation would capture 98.8% of reported revenues in 1391 (Mar-Dec 2012) and 96.9% in 1392 (2013).

In terms of the receipts reported by MOMP/MOF, the companies selected give coverage of 98.8% (1391 (Mar-Dec 2012)) and 96.9% (1392 (2013)) of total receipts.

No lower limit was set for receipts to be reported, requiring the reporting entities to report all receipts/payments.

No limit was set for discrepancies to be considered immaterial, although it was emphasised at the MSG meeting in October that completion of the report was required by the end of 2015 if at all possible.

5.5.2.1 Completeness of the list

5.5.2.1.1 Gemstone sector

It is clear that Afghanistan has resources of gemstones and that these are exploited, although the extent of exploitation is uncertain. There was no information on any processes to consolidate mined product for sale (and export). Entities such as the Afghan Emerald Company (see Section 7.7.3) would seem to be a consolidator. Revenue collection for central government does take place at a regional and local level, but the robustness of systems for reporting from regional to national offices is unknown. In addition, it seems likely that mining activity, especially small scale mining, will be affected by local security considerations, and the revenue available to central government will be similarly affected.

As discussed previously (section 3.3.2), there is work in progress to evaluate the sector. GIZ is sponsoring a project to strengthen the formalisation of the artisanal and small scale mining sector in Afghanistan, and the preface to the interim report comments that

"Our understanding of the Afghanistan Gemstone Sector is advancing so fast that this document is simply an Interim Report. A rapidly growing mass of factual evidence demonstrates the Afghan Gemstone Sector to be much larger than hitherto supposed in terms of the number of gemstone localities, active gemstone mines, and the diversity of precious and semiprecious stones occurring in Afghanistan." (the interim report is included at Appendices: 10.13 by permission of GIZ).

After discussion with stakeholders, it was agreed that the current report should concentrate on extractive entities identified by MOMP and MOF and that the gemstones should be noted as an omission which requires further investigation for the future.

5.5.2.1.2 Cadastre

As noted elsewhere, work carried out on the cadastre (Section 5.4.3.3) and sub national reporting (5.4.2.2) suggests that the MOMP figures for total receipts may be incomplete.

5.5.2.1.3 Amendments to the list

The analysis of the totals originally provided for MOMP included receipts from an entity named as "Afghan Tajik", comprising

	1391 AFS	1392 AFS
Premium and bonuses		114,806,264
Land fees		33,503,947
Bid fees	3,842,904	1,446,750
Total	**3,842,904**	**149,756,961**

Table 5.8

We were subsequently informed that this was a small company whose mining contract had been cancelled and that there had been no revenue in 1391 (Mar-Dec 2012) or 1392 (2013), and that the figures should be removed from the totals, since they had been included in error. The amounts are not included in the MOMP figures in this report.[253]

5.5.2.1.4 Omissions from the list

Information provided on company templates revealed an error in the scoping information provided by MOMP and another company which may have made payments to government in fiscal 1391 (Mar-Dec 2012) or 1392 (2013).

Rights to exploit the oil in the Sanduqli and Mazar-i-Sharif blocks were granted to:-

- Dragon Oil (Sanduqli) Limited and Dragon Oil (Mazar-i-Sharif) Limited
- Turkish Petroleum Afghanistan Limited
- Ghazanfar Investments Limited

MOMP included “Dragon Oil” and “Turkish Petroleum” on the total receipts information provided at the scoping stage, but did not report any receipts from Ghazanfar Investments Limited. MOMP has provided a receipt for US$ 400,000 paid to it by Ghazanfar Investments Limited in respect of a signature bonus in 1392 (2013). We have asked MOMP why Ghazanfar Investments Limited was not included on the list of all extractive companies, and have asked MOMP and MOF whether there were any other payments made by the company in 1391 (Mar-Dec 2012) or 1392 (2013). MOMP responded that there were no other payments received from Ghazanfar. MOF responded that Ghazanfar had no activity in either 1391 or 1392, and had signed the “Declaration of No Activity Form” for these periods.

MOMP returned a single template for “Dragon Oil”. However, Dragon Oil has registered two companies in Afghanistan, one for each block. The companies are

- Dragon Oil (Sanduqli) Ltd; and
- Dragon Oil (Mazar-i-Sharif) Ltd

Each of the two companies returned templates, which revealed that MOMP had missed one of the bonus payments; the MOMP receipts have been adjusted accordingly. However, we note that the scoping information provided by MOMP was incorrect.

We have requested clarification from MOF on the TIN numbers for each of the Dragon Oil companies, and for Ghazanfar Investments Limited; at the date of writing, this has not been received.

The interest in each block and the reported bonus figures for each block are as follows:-

[253] The 1392 figures for Afghan Tajik represent more than 10% of the totals originally reported by government for that year (excluding dividends and profit share from SOEs.

Interest in block	Sanduqli	Mazar-i-Sharif
Dragon Oil	40%	40%
Turkish Petroleum	40%	40%
Ghazanfar	20%	20%
Bonus reported		
Dragon Oil	US$ 0.4 m	US$ 0.4 m
Turkish Petroleum	US$ 0.4 m	US$ 0.4 m

The MSG should follow up with MOMP and MOF to establish the TIN numbers for each of the Dragon Oil companies, and for Ghazanfar Investments Limited.

5.5.3 SUB NATIONAL FLOWS

5.5.3.1 AEITI Mission to Provinces

In November 2014, a team from the AEITI Secretariat visited six provinces[254]

- Baghlan Province
- Samangan Province
- Balkh Province
- Badakhshan Province
- Heerat Province
- Jalalabad, capital of Nangarhar Province

The team noted that small contracts are issued by the local directorates of MoMP, while other large contracts are awarded by the MoMP itself and they reported directly to MoMP. The provincial directorates were only following up with these extractive companies.

Directorates and extractive companies expressed concern about the security situation in these provinces, which gave rise to illegal mining and also limited the operations and control of these departments and extractive companies. There was agreement that government should increase its efforts to improve the position, so that there might be increased investment and transparency in the sector.

The AEITI mission visited the offices of the Northern Coal Enterprise, and comment that there were no proper financial systems in place and there was no organised filing system for documents.

The team noted that the directorates in the provinces visited do not have proper financial systems to manage their accounts.

The AEITI's report concludes "*It was found during this mission that the provincial directorates (Mastofiats) of MoF wasn't collecting any tax revenue from the extractive companies, which amounts to millions of Afs; these finding were shared by the AEITI secretariat with the concerned authorities at MoF, based on which these*

[254] See Appendices: 10.8 for the report

authorities officially informed their local directorates to collect these revenues which is a big achievement for AEITI, its MSG and the citizens of Afghanistan."

MOMP and MOF have established a joint committee to review the mustofiats in the light of the report's comments.

5.5.3.2 Report on municipalities

Following the MSG meeting in October, we were provided with a report, "Municipalities in Afghanistan", prepared in June 2014 by Abdul Bagi Popal, Head of IDLG's Municipalities Directorate. A copy is attached as Appendices: 10.5. It seems probable that where extractive companies are making payments to municipalities, such payments will not be industry specific in the same way as, for example, royalties or signature bonuses; and the report (pp 35-36) contains a table of revenue sources for municipalities.

Nevertheless, for the AEITI process to be complete, further investigation of this area should be included in the medium term work plan.

5.5.3.2.1 Extract from Popal's report "Municipalities in Afghanistan"[255]

According to their reports, the municipalities generated more than 2 billion AFN in revenues each year between 2010 and 2013.

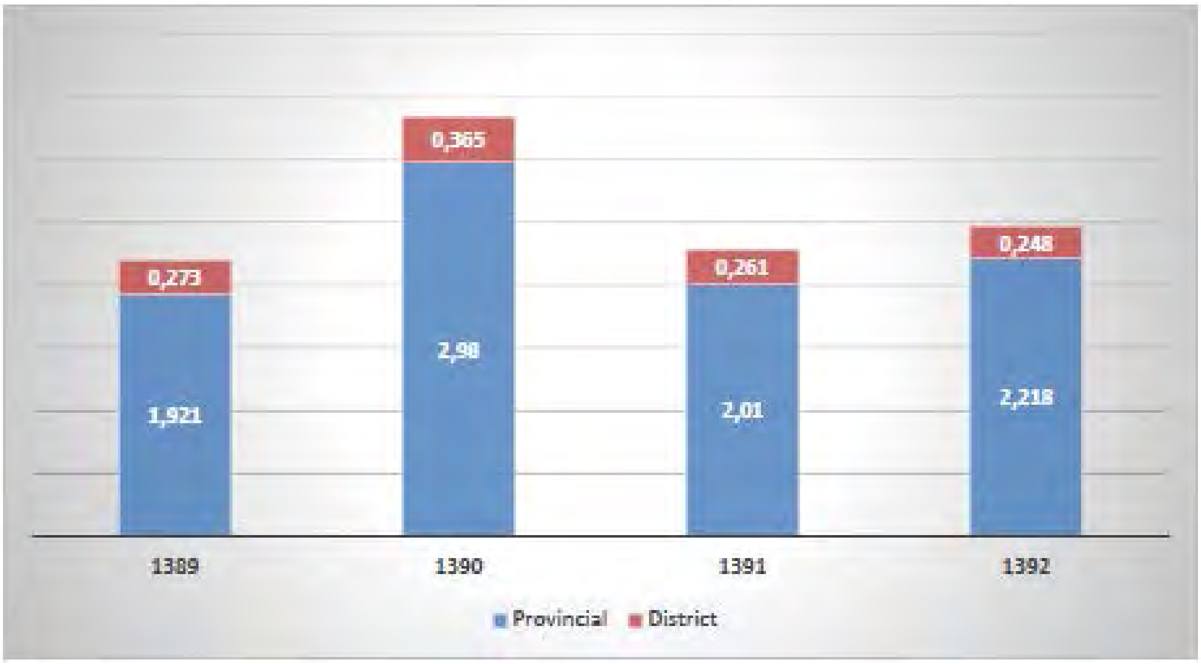


Chart 2. Revenues generated by the provincial capitals and district municipalities 1389-92 in billion AFN as reported to GDMA.

5.5.3.3 MSG decision on sub national revenues

The AEITI Mission highlighted inadequacies in revenue collection and reporting due to factors including the security situation in certain areas and the adequacy of financial systems in provincial government departments.

[255] We have not examined or validated the content of the report or this extract

The Third Report included an item described as “1% municipality”, made by SOEs to sub national government bodies. This was financially immaterial in terms of total flows reported (AFS 5m out of total payments of AFS 4,845m – 0.1%). The report explains that <<*”The only sub-national payments carried out in the sector are direct payments to municipality made by SOEs. According to the Director General of State-owned Enterprises, MoF, Mr. Mohammad Yosuf Osman, SOEs on an annual basis pay another stream of tax, which amounts to 1% of their revenue to local municipalities as "Municipality Cleaning Payment"*>>.

The DG SOE confirmed that the Cleaning Payment was still payable; at its meeting in October, the MSG noted that this payment was not financially material. The MSG also noted the practical difficulties with collection of data from sub-national government and accordingly decided that the Fourth Report should be limited to receipts / payments by / to central government (MOMP/MOF).

5.5.3.4 Conclusion

The municipality cleaning payments reported by SOEs in the Third EITI report are understood to remain in force. However, they are not material in the context of other flows reported and in view of the understanding that provincial reporting systems are not robust, it was agreed that sub national payments should not be included.

The report on municipalities (produced by Abdul Baqi Popal, and not validated by ourselves) suggests that payments to municipalities are not specific to the extractive sector. The MSG should gain a fuller understanding of the nature and materiality of sub-national flows from extractive companies. With regard to the administrative and recording systems, the AEITI mission to provincial offices and our own visits to collect data in Mazar-i-Sharif and Pol-e-Khomri indicate that these are not robust. It is recommended that further work be carried out to assess this area (see section 8).

5.5.4 OTHER PAYMENTS

The templates approved by the MSG required companies to declare social payments and infrastructure payments of any value (i.e. no lower limit). These were to be declared by companies making the payments, but recipients were not asked to report and the payments were not to be reconciled.

MOMP said that there were no payments in kind or transportation payments.

5.6 ASSURANCE

5.6.1 ASSURANCE PROCEDURES FOR 1391 (MAR-DEC 2012) AND 1392 (2013) EITI REPORT

The MSG agreed, after discussion, that in the current audit environment, assurance on the figures would be obtained by a senior official from each reporting entity signing a declaration on the figures provided for the reconciliation and that the company/departmental stamp should be affixed to the template.

The form of the declaration is included in the reporting templates (Appendices: 10.3).

5.6.2 GENERAL BACKGROUND

The most recent assessment of Afghanistan's Accounting and Auditing practices[256] was undertaken by the World Bank in 2009 and we understand that little has changed in the past six years. The document highlights:

- *very limited accounting and audit profession in Afghanistan, due to an acute shortage of qualified professionals. There is no recognised body that represents the profession in Afghanistan. The number of resident foreign qualified Certified or Chartered Accountants is estimated at less than twenty in Kabul, a city of four million people and the capital of Afghanistan.*
- *no established standard setting body for accounting or auditing, as such there are no enforceable accounting or auditing standards for the private sector.*
- *financial statements of SOEs are generally incomplete, as the law does not require SOEs to follow any financial reporting standards or to have subject to an external audit. The current law only requires filing of progress reports and, submission to the relevant ministry on a quarterly basis without the requirement to publicly make available any statements.*
- *commercial entities generally do not prepare their financial statements for external financial reporting as there is no legal requirement for filing of audited financial statements along with Income Tax returns.*
- *a general perception that with the exception of banks, the financial statements in Afghanistan are of a very low quality*

5.6.3 GOVERNMENT

5.6.3.1 General

Because of political changes in Afghanistan during recent years, the Supreme Audit Office's (SAO) membership in several international auditing organizations had been suspended. The SAO has now regained its membership in INTOSAI[257], ASOSAI[258], and ECOSAI[259].

The Auditor General is the CAO's most senior official (equivalent to a minister). He establishes policies and guidelines for the CAO and is directly responsible to the President of Afghanistan. The Auditor General is assisted by two deputy auditors general, who are responsible for implementing the CAO's audit plans and evaluating its audit findings. They also consider proposals to improve the CAO's work processes.

The CAO's rules and regulations are based on international standards, and its objectives encompass financial, accounting, and economic monitoring of institutions such as ministries, public offices and organizations, government commissions, municipalities, and banks.

INTOSAI comments that two decades of civil war in Afghanistan have damaged the core of the CAO (and other institutions) and have diminished opportunities for effective and continuous training. To overcome this problem and to rebuild the capacity of CAO staff, the Transitional Government of

[256] see www.worldbank.org/ifa/rosc_aa_afg_eng.pdf
[257] International Organization of Supreme Audit Institutions
[258] Asian Organisation of Supreme Audit Institutions
[259] Economic Co-operation Organization Supreme Audit Institutions - a regional forum of the Supreme Audit Institutions of the South and Central Asian regions

Afghanistan has awarded a project to PKF, an international firm of accountants and auditors. This project is funded by the World Bank and provides technical support to the CAO to enable it to carry out audit functions in accordance with international auditing standards.

In this context, it is to be expected that the application of international standards and financial disciplines by the audit office and also by government ministries and agencies is a work in progress and that it will take time to build the capacity of the audit and financial departments within government.

We understand that the Supreme Audit Office undertakes an audit of the reporting central government ministries.

The status of audit of sub national government (which has not been included in the current report) is not known.

The Government Accounts are available via the website of the Supreme Audit Office of Afghanistan - http://sao.gov.af/en

5.6.3.2 Government Accounts (Qatia) 1391 (Mar-Dec 2012)

The Audit opinion includes a statement that “We conducted our audit in pursuance to the Auditing Standards produced by International Organization of Supreme Audit Institutions (INTOSAI).” The report is qualified in one respect,

“that an amount of Afs 25,571,267,581 which was received from the external grant & loan in the government account and also reflected in Afghanistan central bank account (DAB), has not been reflected in the Revenue Qatia statement 1391 (Mar-Dec 2012).

No suitable justifications were provided for by the Ministry of Finance for the omission of the amount from the revenue Qatia statement and thereby we are unable to give an opinion in this regard.”

5.6.3.3 Government Accounts (Qatia) 1392 (2013)

The Audit opinion includes a statement that “We conducted our audit in accordance with INTOSAI (International Organization of Supreme Audit Institutions)’s International Auditing Standards and Principles (ISSAIs) and the requirements of the Supreme Audit Office’s Audit Law.” the report is again qualified in respect of grant income (stating “we are unable to give any opinion regarding revenue assessed and collected from grants for operating budget revenue”).

5.6.4 STATE OWNED ENTERPRISES

The AEITI mission commented that on their visit to Northern Coal Enterprise in November 2014, there were no proper financial systems in place and there was no organised filing system for documents[260].

We obtained, via the AEITI Secretariat, translated copies of the accounts for 1391 (Mar-Dec 2012) and 1392 (2013) and the audit reports for 1391 (Mar-Dec 2012) for Northern Coal Enterprise and Afghan Gas Enterprise.

[260] See Appendices: 10.8

5.6.4.1 Northern Coal

The audit report on the financial statements for the fiscal period 1391 (Mar-Dec 2012) was issued by the Supreme Audit Office on 3rd May 2014 and is addressed to the "Ministry of Mines and Petroleum". The translated opinion states:-

"Pursuant to the agreement signed on 17 September 2008 between Ministry of Finance and the Supreme Audit Office (SAO) and as per our authorization letter # 7954 dated 4 Feb 2014, the tripartite financial accounts (profit & loss account, cash accounts and balance sheet from the year 1390) of the North Coal Enterprise, subsequent to the analysis and verification of its 1391 (Mar-Dec 2012) financial statement, was jointly audited by Ministry of Finance and the Supreme Audit Office as per the international best practices."

The opinion does not state which audit standards were applied and does not give assurance on the figures.

5.6.4.2 Afghan Gas Enterprise

The audit report on the financial statements for the fiscal period 1391 (Mar-Dec 2012) was issued by the Supreme Audit Office on 11th October 2014 and is addressed to the "Ministry of Mines and Petroleum". The translated opinion states:-

"Pursuant to the agreement signed on 17 September 2008 between Ministry of Finance and the Supreme Audit Office (SAO) and as per our authorization letter # 525 dated 6 April 2014, the tripartite financial accounts (profit & loss account, cash accounts and balance sheet from the year 1391) of the Afghan Gas Enterprise subsequent to the analysis and verification of its 1390 financial statement was jointly audited by Ministry of Finance and the Supreme Audit Office as per the international best practices."

The opinion does not state which audit standards were applied and does not give assurance on the figures.

5.6.5 COMPANIES

5.6.5.1 General

The accountancy and auditing professional environment in Afghanistan are at present not well developed. Any assurance sought or obtained from companies needs to take this into account.

Actions are under way to address weaknesses in this area – for example, in January 2015, the Afghanistan Ministry of Finance and the Association of Chartered Certified Accountants signed an agreement to develop the accountancy profession in Afghanistan. This is after the period covered by the AEITI Report under consideration, and it will in any case take some time before these measures bear fruit.

5.6.5.2 Secretariat review

The Secretariat Review notes that other than for large international companies, it is not the practice for companies to have their accounts audited under international standards. This is an issue for the MSG to address.

5.6.5.3 Provisions of PSCs

The Amu Darya PSC specifies that the Contractor should produce annual accounts audited by an independent chartered accountant or certified public accountant acceptable to both the Contractor and MOMP, but does not specify the basis for such an audit and in particular the auditing standards which are to be applied. The summaries of the PSCs relating to the Sanduqli and Mazar-i-Sharif blocks do not contain any reference to an audit. The MSG should address this issue.

5.6.5.4 MSG decision

The MSG agreed that all reporting companies be requested to provide audited financial statements covering the period in question, or to state that no audit is undertaken, so that there is clarity on what each of the entities required to report under EITI is doing; and so that a targeted action plan can be drawn up by the MSG in response to the information.

The MSG requirement was for major companies – explained by the AEITI Secretariat as the oil companies and MMC-Aynak – to provide audited accounts for each year. Although these were requested along with the templates, companies did not provide copies and at a late stage in the reporting process required specific letters of authority from MOMP authorising the release of accounts to us.

At the date of writing, audited accounts had been provided by:-

1. MMC-JCL Aynak Minerals Co Limited, who provided audited accounts for the company for the years ended 31st December 2013 and 2014 - the audit opinion states that the audit was conducted in accordance with International Standards on Auditing, the accounts state that they were prepared under IFRS.
2. CNPCI Watan Oil and Gas Limited, who provided audited accounts for the company for the years ended 31st December 2012 and 2013 - the audit opinion states that the audit was conducted in accordance with International Standards on Auditing, the accounts state that they were prepared under IFRS.
3. Turkish Petroleum Afghanistan Limited, who provided audited accounts for the Mazar-i-Sharif Joint Account for 2013 and 2014 – the audit opinion states that the audit was conducted in accordance with International Standards on Auditing, the accounts state that they were prepared under accounting policies set out in the accounts.
4. Dragon Oil (Sanduqli) Limited), who provided Special Purpose Financial Statements covering the Afghanistan branch of the company for the period from 8th October 2013 to 31st December 2014 - the audit opinion states that the audit was conducted in accordance with International Standards on Auditing, the accounts set out the significant accounting policies used in their preparation.
5. Dragon Oil (Sanduqli) Limited), who provided an R Factor Income and Expenditure Account for the period from 8th October 2013 to 31st December 2014 - the audit opinion states that the audit was conducted in accordance with International Standards on Auditing, the accounts were prepared in accordance with the cash basis of accounting and the requirements of the Exploration and Production Sharing Contract.

Dragon Oil said that there is no requirement in the PSC to produce accounts under IFRS.

Other companies have not responded on this point at the date of writing.

5.7 TEMPLATES AND TRAINING

5.7.1 TEMPLATES

We prepared templates to capture information on the flows determined by the MSG.

5.7.2 TRAINING

We conducted training sessions with government representatives and with representatives from all private companies, with the exception of Turkish Petroleum and Dragon Oil, during a visit to Kabul from 30th October to 3rd November. Staff from Turkish Petroleum and Dragon Oil were in Dubai at this time, and our local staff with engagement from the AEITI secretariat gave induction training on the reporting process and templates to these two companies. Staff from the two SOEs included, Northern Coal Enterprise and Afghan Gas, received training on 4th November.

5.8 ELEMENTS OF THE RECONCILIATION WORK

In carrying out the reconciliation, we:

- Relied upon the assurances given by senior officials In accordance with the decision of the AEITI MSG that templates should be signed by such an individual
- Requested a copy of the audited financial statements for each company
- Collated the templates returned by reporting entities and established a database, identifying discrepancies between receipts reported by government and payments reported by companies
- Liaised with reporting government agencies and companies to understand the reasons for discrepancies, including visits to site to obtain information from the extractive companies and government agencies
- Analysed and reconciled data submitted by extractive companies and Government agencies in the reporting templates for the 1391 (Mar-Dec 2012) and 1392 (2013) fiscal periods
  - Meetings were held with government agencies and reporting companies to investigate reported differences
  - All reporting extractive companies and government agencies were requested to support their reported figures with supporting documents and vouchers; including evidence of payments and receipts
  - All reconciling items produced by all parties were scrutinised and examined for authenticity, ownership, accuracy, validity, occurrence in terms of the reporting periods and other relevant attributes
  - All reconciliations and non-reconciled differences were notified to the reporting entities as evidence and proof of the work done
  - Reporting templates were signed off by senior management officials
  - Reporting schedules were amended as appropriate and summaries prepared
- Prepared this report on government receipts and company payments,
  - highlighting the reconciled discrepancies and the unresolved discrepancies;
  - making recommendations on action to be taken on the unresolved discrepancies, and for improvement of the implementation of EITI in Afghanistan more generally;

- reporting on the total oil, gas and minerals produced for which payments were made and revenue collected for the fiscal period;
- including a list of all licensed or registered companies according to published MOMP information, noting which companies participated in the EITI reporting process and those that did not; and
- containing other information as required under the Terms of Reference and the EITI Standard.

6 RESULTS OF THE RECONCILIATION

6.1 SUMMARY OF REPORTED FLOWS

Summary of flows initially reported

The flows initially reported were:-

1391 (9 mo)	Government (AFS 000)	Extractive Companies (AFS 000)	Net Initial Differences (AFS 000)	%
Total payments declared initially by reporting entities	**4,007,753.1**	**4,238,229.4**	**-230,476.3**	**-5.75%**

Table 6.1

1392	Government (AFS 000)	Extractive Companies (AFS 000)	Net Initial Differences (AFS 000)	%
Total payments declared initially by reporting entities	**1,230,973.8**	**1,980,971.5**	**-749,997.7**	**-60.93%**

Table 6.2

The process of reconciliation highlighted three main areas in the initial differences above where discrepancies arose:-

1. Amounts reported in the wrong category
2. Errors or omissions in the amounts reported, successfully resolved during the reconciliation
3. Discrepancies which have not yet been resolved

These areas are discussed in more detail later in this section (6.2).

Summary of flows after reconciliation

The flows after reconciliation were as follows:-

1391 (9 mo)	Government (AFS 000)	Extractive Companies (AFS 000)	Unresolved Differences (AFS 000)	%
Total payments declared by reporting entities after reconciliation	**4,251,891.1**	**4,249,338.2**	**2,552.9**	**0.06%**

Table 6.3

<u>1392</u>	Government (AFS 000)	Extractive Companies (AFS 000)	Unresolved Differences (AFS 000)	%
Total payments declared by reporting entities after reconciliation	**2,028,176.6**	**2,006,063.5**	**22,113.1**	**1.09%**

Table 6.4

6.1.1 2012/13 REPORTED RECEIPTS – GOVERNMENT TOTAL

Government receipts, after reconciliation, from reporting companies may be expressed graphically for the two fiscal periods included in this report (AFS billions):-

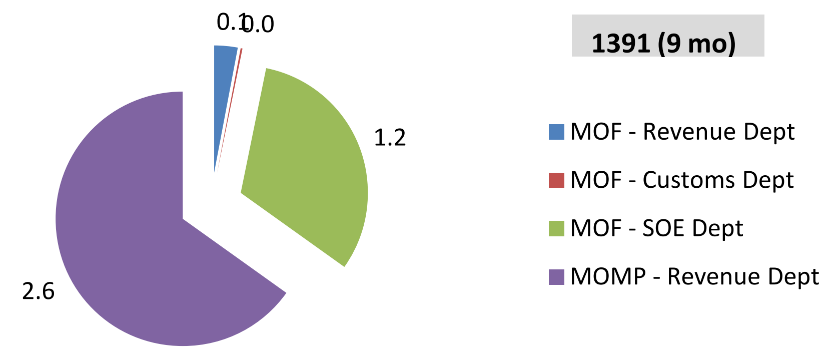


Table 2.4

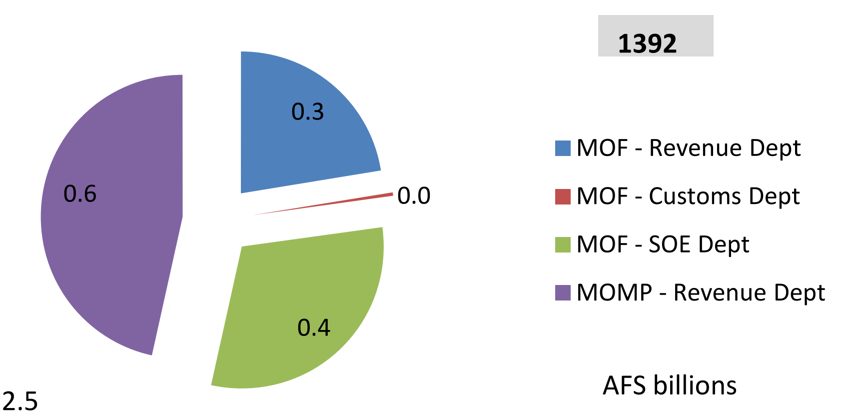


Table 2.5

It can be seen that reported receipts in 1391 (Mar-Dec 2012) were significantly higher than in 1392 (2013), due to the receipts of bonus payments in 1391 (Mar-Dec 2012).

6.1.2 2012/13 REPORTED RECEIPTS – MOF

The MOF receipts reported for 1391 (Mar-Dec 2012)/1392 (2013), after reconciliation, may be expressed graphically for the two fiscal periods as follows (AFS millions):-

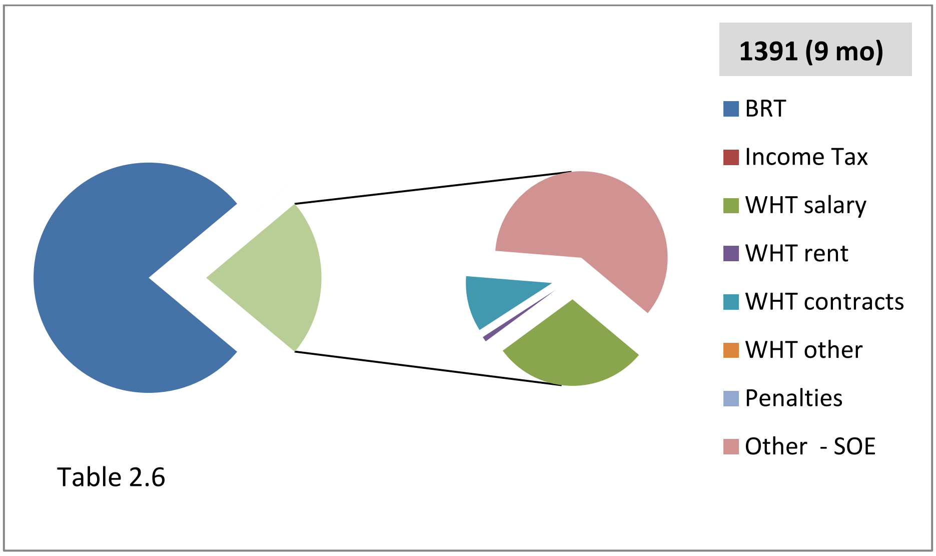


Table 2.6

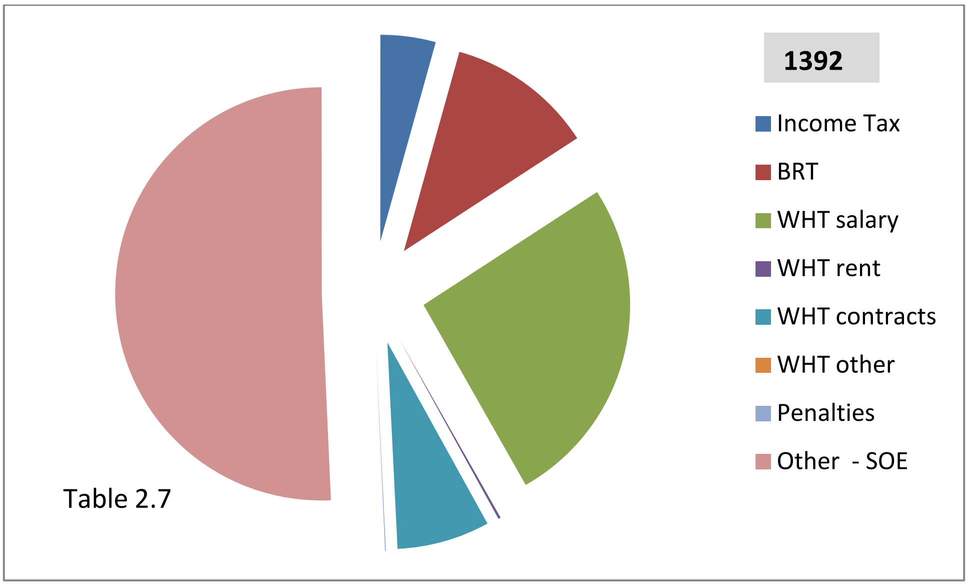


Table 2.7

It can be seen from these charts that the contribution of income tax to reported receipts is relatively small.

6.1.3 2012/13 REPORTED RECEIPTS - MOMP

The MOF receipts reported for 1391 (Mar-Dec 2012)/1392 (2013), after reconciliation, may be expressed graphically for the two fiscal periods as follows (AFS millions):-

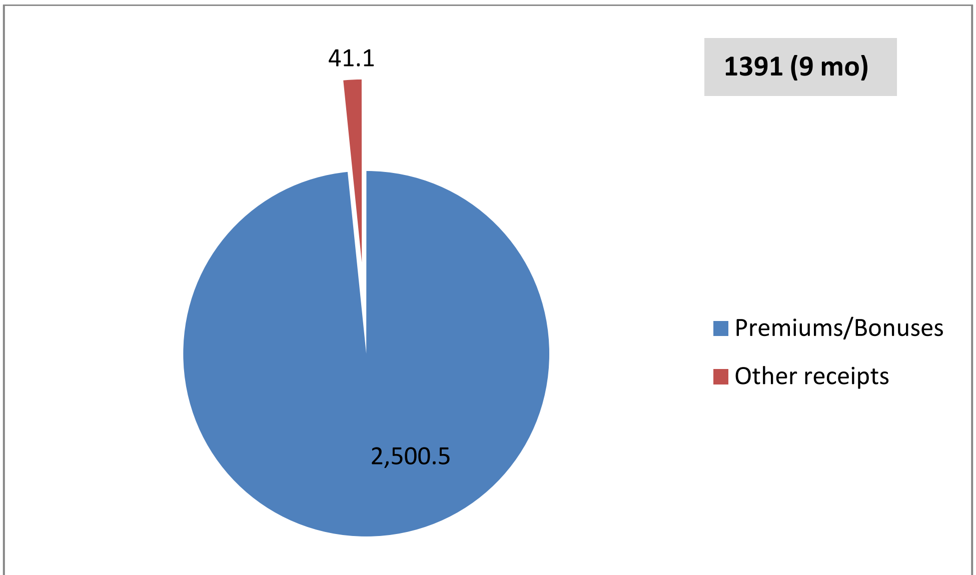


Table 2.8

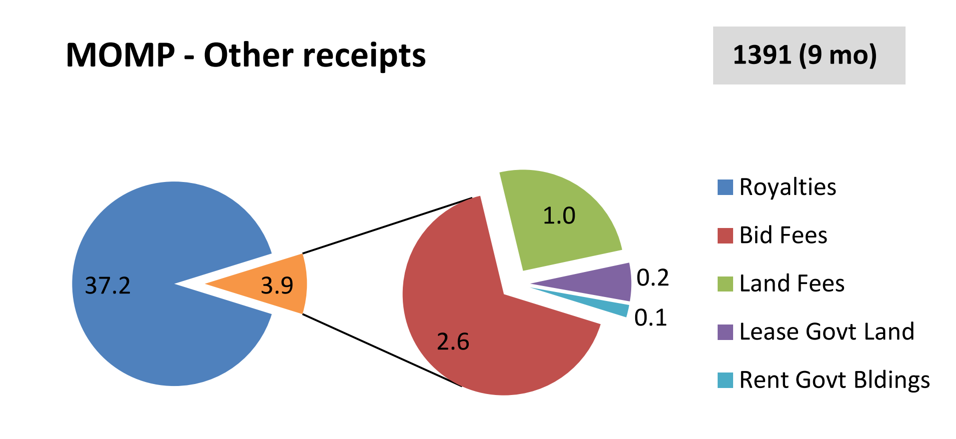


Table 2.8a

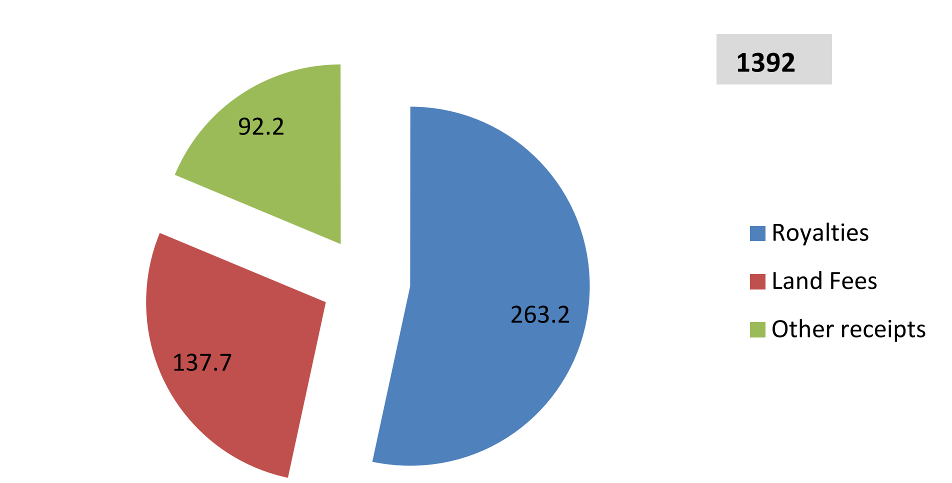


Table 2.9

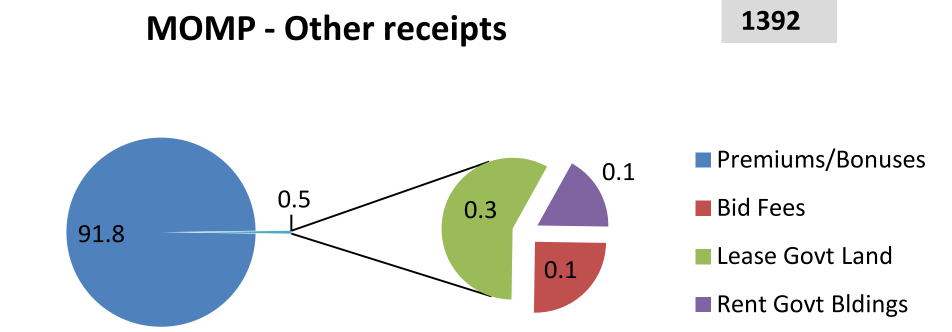


Table 2.10

6.2 COMMENTARY ON DIFFERENCES BETWEEN GOVERNMENT AND COMPANIES

6.2.1 INITIAL DIFFERENCES: AMOUNTS REPORTED IN THE WRONG CATEGORY

In a number of cases, government and companies reported amounts under an incorrect heading – for example, a royalty payment was reported under premiums/bonuses. Identifying and correcting such misclassifications does not change the total amount reported by government or by companies and does not affect the total net discrepancies. However, it is important to have amounts reported under the correct receipt/payment type and the first stage of the reconciliation was to amend amounts mis-reported in this way.

The coding errors between categories seem to have arisen due to an inadequate understanding by government and companies as to which codes costs should be reported under and a lack of consistency in application of the codes. The description of which items should be reported under individual headings was covered at the training, but was not observed during completion of templates. This is the fourth EITI reconciliation, and the persistence of this sort of difficulty is indicative of the reporting capability of the participants in the reconciliation.

6.2.2 INITIAL DIFFERENCES: ERRORS AND OMISSIONS SUCCESSFULLY RESOLVED

Having cleaned up the coding, it was possible to see where there were genuine differences in amounts reported by government and companies. These were discussed with the respective parties and where evidence was provided, an adjustment was made to agree the figures. The differences arose for a number of reasons, of which the most significant are:-

- Reporting of payments in the wrong period (e.g. payment made in 1393 (2014) reported in 1392 (2013))
- Oddities in government reporting practice.
    a. Turkish Petroleum and Dragon Oil are the responsibility of MOF-LTO, but are dealt with by the regional office and the central LTO was unable to report data. This necessitated a visit to the regional office, and indicates inadequate reporting mechanisms within government and weakened control over revenue collection
    b. The LTO deals with payments from CNCPI-Watan, but some of the salaries withholding taxes were paid to the MTO, according to the company.
- Poor record keeping in government departments, leading to errors in production of the original data
- Poor record keeping in small companies, which are owner managed and operate without accounts staff

6.2.3 UNRESOLVED DIFFERENCES

Net unresolved differences amounted to AFS 2.6 million in 1391 (Mar-Dec 2012) and AFS 22.1 million in 1392 (2013). These net differences are a blend of instances where government has reported more than companies and where government has reported less than companies.

Table 6.5 below shows separately the total amounts reported by government where these were more than those reported by companies (columns A and C); the total amounts reported by government where these were less than those reported by companies (columns B and D).

Unit: AFS Flow	1391 (9 mo) Over/(under) reported by government		1392 Over/(under) reported by government	
	A	B	C	D
Income Tax	0	0	8,871	-685,283
BRT	892,464	-1,402,516	0	-1,548,274
WHT salary	133,599	-239,087	207,527	-733,837
WHT rent	0	-12,375	136,979	-13,241
WHT contracts	85,996	0	366,803	-1,226,258
WHT other	0	-4,375,030	0	-6,467,596
Penalties	0	0	0	0
Other	0	0	0	0
Sub total - MOF Revenue and SOE	**1,112,059**	**-6,029,008**	**720,180**	**-10,674,489**
Royalties	2,347,547	0	0	-1,403,876
Premiums/Bonuses	0	0	0	0
Bid Fees	2,612,396	0	113,610	0
Penalties and Fines	0	0	0	0
Land Fees	0	0	17,694,065	0
Licence Fees	0	0	0	-2,500
Permitting Fees	0	0	0	0
Bid/other securities	0	0	15,761,000	0
Lease of Government Land	0	0	0	0
Rent of Government Buildings	0	0	0	0
Misc. Revenues	0	0	0	0
Sub total - MOMP	**4,959,943**	**0**	**33,568,675**	**-1,406,376**
Imports Duties	1,773,011	0	0	0
BRT	197,279	0	0	0
Fixed Tax on imports	555,513	0	0	-93,615
Other Receipts	200,194	-216,063	0	-1,314
Sub total - MOF Customs	**2,725,997**	**-216,063**	**0**	**-94,929**
Net unreconciled discrepancies	**8,797,999**	**-6,245,071**	**34,288,855**	**-12,175,794**

Table 6.5

The largest discrepancies which have not yet been reconciled are as follows:-

Unit: AFS 000	Flow	1391 (9 mo) Over/(under) reported by government		1392 Over/(under) reported by government	
Afghan Gas	WHT other		-4,375		-6,467
Afghan Gas	BRT		-1,402		-1,548
AIC Coal	Royalties				
AIC Cement	Royalties	2,322			-1,403
Turkish Petroleum	Bid fees	1,283			
Dragon Oil (Sanduqli)	Bid fees	1,278			
MMC-Aynak	Import duties	1,562			
Dragon Oil (Sanduqli)	Land fees			17,694	
Kushak	Bid securities			5,199	
Hashami	Bid securities			10,562	
Other differences		2,353	-468	834	-2,758
Total differences		**8,798**	**-6,245**	**34,289**	**-12,176**

Table 6.6

6.3 FLOWS TO GOVERNMENT ANALYSED BY COMPANY

Total relevant amounts[261] reported as received or paid by government or companies respectively, after reconciliation, are reported in Tables 6.7 and 6.8 below, analysed by company. Full details of the reconciliation by company are set out in Appendices: 10.4.

No payments were reported by companies for social payments or infrastructure payments.

[261] A relevant amount is a receipt / payment for a flow which the AEITI MSG determined should be included in the reconciliation (see section 4.1.1 for a list of these flows).

Summary of Reconciliation Results: Fiscal Period 1391 (Mar – Dec 2012)

No.	Cash Flow Stream	1391 Template originally lodged			Adjustments		1391 Final reconciliation		
		Government	Companies	Difference	Government	Companies	Government	Companies	Difference
		AFS	AFS	AFS	AFS	AFS	AFS	AFS	AFS
1	North Coal Company	1,287,233,018	1,505,352,324	(218,119,306)	218,119,306	-	1,505,352,324	1,505,352,324	-
2	Afghan Gas Enterprise	40,029,105	55,935,838	(15,906,733)	10,000,000	-	50,029,105	55,935,838	(5,906,733)
3	MMC - JCL Aynak Minerals Company Ltd.	2,561,417,900	2,553,148,143	8,269,757	74,938	6,089,340	2,561,492,838	2,559,237,483	2,255,355
4	CNPCI Watan Oil and Gas Afghanistan Ltd.	69,757,713	85,291,671	(15,533,958)	15,533,958	-	85,291,671	85,291,671	-
5	Kushak Brothers Company	21,726,124	16,452,045	5,274,079	-	5,019,500	21,726,124	21,471,545	254,579
6	Hashimy Group	75,790	-	75,790	-	-	75,790	-	75,790
7	TP Afghanistan Ltd	1,283,715	-	1,283,715	-	-	1,283,715	-	1,283,715
8	Dragon Oil (Sanduqli) Limited	1,278,221	-	1,278,221	-	-	1,278,221	-	1,278,221
9	Mesaq - e - Sharq Company	13,044,516	13,454,316	(409,800)	409,800	-	13,454,316	13,454,316	-
10	Afghanistan Coal LLC	1,463,701	1,509,519	(45,818)	-	-	1,463,701	1,509,519	(45,818)
11	Afghanistan Cement LLC	10,443,336	7,085,517	3,357,819	-	-	10,443,336	7,085,517	3,357,819
12	Dragon Oil (Mazar - i - Sharif) Limited	-	-	-	-	-	-	-	-
	Total	**4,007,753,139**	**4,238,229,373**	**(230,476,234)**	**244,138,002**	**11,108,840**	**4,251,891,141**	**4,249,338,213**	**2,552,928**

Table 6.7

Summary of Reconciliation Results: Fiscal Period 1392 (Jan – Dec 2013)

No.	Cash Flow Stream	1392 Template originally lodged			Adjustments		1392 Final reconciliation		
		Government	Companies	Difference	Government	Companies	Government	Companies	Difference
		AFS	AFS	AFS	AFS	AFS	AFS	AFS	AFS
1	North Coal Company	480,000,000	1,207,500,000	(727,500,000)	727,500,000	-	1,207,500,000	1,207,500,000	-
2	Afghan Gas Enterprise	18,644,226	76,711,500	(58,067,274)	50,352,331	1,341,523	68,996,557	78,053,023	(9,056,466)
3	MMC - JCL Aynak Minerals Company Ltd.	32,086,256	30,833,585	1,252,671	-	1,338,729	32,086,256	32,172,314	(86,058)
4	CNPCI Watan Oil and Gas Afghanistan Ltd.	363,985,402	345,668,810	18,316,592	3,150,545	22,200,974	367,135,947	367,869,784	(733,837)
5	Kushak Brothers Company	44,329,391	41,039,678	3,289,713	2,433,677	524,390	46,763,068	41,564,068	5,199,000
6	Hashimy Group	37,383,200	38,077,970	(694,770)	10,985,000	(382,880)	48,368,200	37,695,090	10,673,110
7	TP Afghanistan Ltd	61,535,024	61,535,024	-	-	-	61,535,024	61,535,024	-
8	Dragon Oil (Sanduqli) Limited	63,755,187	46,061,122	17,694,065	-	-	63,755,187	46,061,122	17,694,065
9	Mesaq - e - Sharq Company	40,987,897	40,987,753	144	69,193	69,337	41,057,090	41,057,090	-
10	Afghanistan Coal LLC	55,423,497	57,878,388	(2,454,891)	1,232,185	-	56,655,682	57,878,388	(1,222,706)
11	Afghanistan Cement LLC	32,843,675	34,677,635	(1,833,960)	1,479,913	-	34,323,588	34,677,635	(354,047)
12	Dragon Oil (Mazar - i - Sharif) Limited	-	-	-	-	-	-	-	-
	Total	**1,230,973,755**	**1,980,971,465**	**(749,997,710)**	**797,202,844**	**25,092,073**	**2,028,176,599**	**2,006,063,538**	**22,113,061**

Table 6.8

7 OTHER INFORMATION

7.1 PRODUCTION DECLARED BY REPORTING ENTITIES

7.1.1 MINING

In June 2015, MOMP Cadastre Department provided figures for annual production by mining companies during the reconciliation period in preparation for the report:-

Ministry of Mines and Petroleum
Kadestar Department
Production data of Kadestar
1391-1392

No	Description	Contractor	Extraction Volume 1391	Extraction Volume 1392	Remarks
1	Coal mine contract of Rashak Qobi, Darai Sofi of Samangan Province	Madan Karan	N/A	2000 Tone Coal Min	Have Exploration Period License
2	Coal min contract of Garmak , Darai Sofi of Samangan Province	Mohmand Shamal	N/A	3133 Tone Coal Min	Have Exploration Period License
3	Florid contract of Bakhot , Nish of Qandahar	Amania Mining Extractive Company	N/A	2000 Tone Florid	Have Exploration Period License
4	Coal min contract of Garmak , Darai Sofi of Samangan Province	Khoshak Brotheran	N/A	12012.2 Tone Coal Min	Have Exploration Period License
5	Coal min contract of Nahrin , Baghlan province	Hashimi Group	N/A	67450.46 Tone Coal Min	Have Exploration Period License
6	Coal min contract of Robi Dawab, Sar Asiyab of Samangan Province	Mesaq Sharq	25000 Tone Coal Min	67191.429 Tone Coal Min	Have Exploitation License
7	Coal min contract of Sabzaki Heart	Khoshak Brotheran	40000 Tone Coal Min	40000 Tone Coal Min	Have Exploitation License
8	Chromite contract of Gada Khail of Kohi Safi of	Hewad Brotherz	1369 Tone Chromite	5000 Tone Chromite	Have Exploration Period License
9	Coal min contract of Karkari Dode Kash of Pulikhomri	AIC Coal	38954 Tone Coal Min	53380 Tone Coal Min	Have Exploitation License
10	AIC Cement	AIC Cement	71806 Tone Cement	102270 Tone Cement	Have Exploitation License
11	Gold contract of Telai Noraba of Takhar Province	West Land Gerneral Trading	40681.219 Gram Gold	30209.3 Gram Gold	Have Exploitation License

MOMP and reporting companies also provided production volumes on a monthly basis on the EITI reporting templates. There were differences between

- amounts reported by MOMP in June 2015, and amounts reported by MOMP on the EITI reporting templates; and
- amounts reported by MOMP and reporting companies on the EITI templates

Reconciliation of production was not in our terms of reference but the differences between government figures produced at different times, and between government and company figures requires further investigation.

	Mineral	1391			
		Government		Company	Difference
		Jun-15	Template	Template	
		Tonnes	*Tonnes*	*Tonnes*	*Tonnes*
North Coal Company	Coal		988,129	988,129	0
MMC - JCL Aynak Minerals Company Ltd.					0
Kushak Brothers Company	Coal	40,000	54,076		54,076
Kushak Brothers Company	Coal				
Hashimy Group	Coal				0
Mesaq - e - Sharq Company	Coal	25,000	53,947	26,253	27,694
Afghanistan Coal LLC	Coal	38,954	25,501	25,501	0
Afghanistan Cement LLC	Cement	71,806	50,511	49,480	1,031
Sub total: Reporting Mining Companies		**175,760**	**1,172,164**	**1,089,363**	**82,801**

Table 7.1

	Mineral	1392			
		Government		Company	Difference
		Jun-15	Template	Template	
		Tonnes	*Tonnes*	*Tonnes*	*Tonnes*
North Coal Company	Coal		1,240,320	2,499,003	-1,258,683
MMC - JCL Aynak Minerals Company Ltd.					0
Kushak Brothers Company	Coal	12,012	126,963	35,400	91,563
Kushak Brothers Company	Coal	40,000			
Hashimy Group	Coal	67,450	39,466	45,947	-6,481
Mesaq - e - Sharq Company	Coal	67,191	67,033	54,410	12,623
Afghanistan Coal LLC	Coal	53,380	53,510	54,140	-630
Afghanistan Cement LLC	Cement	102,270	114,051	112,051	2,000
Sub total: Reporting Mining Companies		**342,303**	**1,641,343**	**2,800,951**	**-1,159,608**

Table 7.2

Kushak Brothers appears twice because it has two mines, which were initially reported separately by MOMP.

Some companies have not reported production information or confirmed that there was no production:-

- MMC - JCL Aynak Minerals Company Ltd. (1391 (Mar-Dec 2012) and 1392 (2013))
- Kushak Brothers Company (1391 (Mar-Dec 2012))
- Hashimy Group (1391 (Mar-Dec 2012))

The production data reported in June 2015 included information on companies which were not included in the reconciliation, namely:-

	Mineral	Unit	1391	1392
Hewad Brothers	Chromite	*Tonnes*	1,369	5,000
West Land Trading	Gold	*Grams*	40,681	30,209
Madan Karan	Coal	*Tonnes*	n/a	2,000
Mohmand Shamal	Coal	*Tonnes*	n/a	2,133
Amania Mining Extractive Company	Florid	*Tonnes*	n/a	2,000

Table 7.3

7.1.2 OIL AND GAS

The oil companies were not in production in 1391 (Mar-Dec 2012) and only CNCPI-Watan was producing in 1392 (2013), as follows:-

	Mineral	Unit	1391		1392	
			Government	Company	Government	Company
CNPCI Watan Oil and Gas Afghanistan Ltd.	Oil	*Bbls*	-	-	33,030	33,030

Table 7.4

Production data for Afghan Gas Enterprise was received from the MOMP SOE department; the Company did not report production.

			1391			
			Government		Company	Difference
	Mineral	Unit	Jun-15	Template	Template	
Afghan Gas Enterprise	Gas	*000 m³*	-	119,134		119,134

			1392			
			Government		Company	Difference
	Mineral	Unit	Jun-15	Template	Template	
Afghan Gas Enterprise	Gas	*000 m³*	-	159,867		159,867

Table 7.6

7.2 SOCIAL EXPENDITURES AND INFRASTRUCTURE PROVISIONS

No payments for social expenditure or infrastructure provisions were reported by companies.

7.3 TRANSPORTATION TARIFFS

No transportation revenues were identified by MOMP during discussions on the scope of the reconciliation.

7.4 BENEFICIAL OWNERSHIP

Companies were asked to report their owners, listing individually any person or entity holding 10% or more of the shares. No further information was requested and beneficial ownership was not investigated.

7.4.1 OWNERSHIP OF PRIVATE COMPANIES

The information below is taken from the company templates unless otherwise noted.

7.4.1.1 MJAM MMC - JCL Aynak Minerals Company Ltd.

The company reported that its shares are owned as to MMC (Metallurgical Corporation of China Limited) 75% and JCL (Jiangxi Copper Company Limited) 25%.

7.4.1.2 CNPCI – Watan Oil and Gas Afghanistan Limited

The company reported that its shares are owned as to the China National Petroleum Corporation 75% and Watan Oil and Gas Afghanistan 25%

7.4.1.3 Kushak Brothers Company

The company did not identify its shareholders.

7.4.1.4 Meesaq Sharq Company

The company listed its shareholders as:-

Sayed Ghulam Hussein	33%
Mohamed Hussein	15%
Yacoub Ali	12%
Do Sedern	40%

7.4.1.5 Hashami Groups

The company reported ownership as:-

Muhammad Fashim “Hashimy”	50%
Muhammad Hamayoun “Hashimy”	50%

7.4.1.6 Turkish Petroleum Afghanistan Limited

The company listed the Turkish Petroleum Overseas Company as holding 10,000 shares. The total number of shares in issue was not completed.

7.4.1.7 Dragon Oil (Sanduqli) Limited

The company states that it is owned 100% by Dragon Oil International Limited (www.dragonoil.com). Dragon Oil is the operator of the Sanduqli block.

The PSC summary published on the MOMP website states that Dragon Oil (Sanduqli) Limited is a corporation duly organized and existing under the laws of Bermuda; TP Afghanistan Limited is a corporation duly organized and existing under the laws of Jersey; Ghazanfar Investment Ltd. is a corporation duly organized and existing under the laws of the Islamic Republic of Afghanistan.

7.4.1.8 Dragon Oil Mazar-i-Sharif Limited

The company states that it is owned 100% by Dragon Oil International Limited (www.dragonoil.com). The Mazar-i-Sharif block is operated by TPAO.

The PSC summary published on the MOMP website states that Dragon Oil (Mazar-i-Sharif) Limited is a corporation duly organized and existing under the laws of Bermuda; TP Afghanistan Limited is a corporation duly organized and existing under the laws of Jersey; and Ghazanfar Investment Ltd. is a corporation duly organized and existing under the laws of the Islamic Republic of Afghanistan.

7.4.1.9 Afghan Coal LLC

The company reported ownership as:-

Mr Mirwak Azizi Hotak	1,674.5 shares (37.2%)
Mustafa (Majdidi)	1,000 shares (22.2%)
Others (19 shareholders)	1,825 shares
Total	4,500 shares

7.5 STATE OWNED ENTERPRISES

We identified a number of State Owned Enterprises; after consideration, the MSG decided that two should be included in the current report. These are:-

- Northern Coal Company; and
- Afghan Gas Enterprise

Of the other companies, the ***Afghan Emerald Company*** was not identified by MOMP or MOF as a contributor, either for non-tax or tax revenues, to Government. The MSG did not feel there was a good enough understanding of the operations of this company and decided that it should not be included in the report.

Kode Barq was included in the Third Report. However, since it is not an extractive company, but rather a processor of extracted materials, the MSG decided it should not be included in the current Report.

In the light of discussions at the implementation workshop in Dubai, the MSG decided that ***Jabulsaraj Cement Company*** is not an operating extractive company during the period to be covered by the current report, and should not be included.

The MSG decided ***Mazar-E-Sharif Fertilisers And Electricity*** (Northern Fertiliser and Power Plant) should not be included in the current Report since it is not an extractive company.

Information concerning the SOEs is contained in section 3.9.

8 RECOMMENDATIONS

In this section, we make recommendations for improvement of the reporting and management of the extractive sector. Where these recommendations have been contained in earlier EITI reports, we make mention of this.

8.1 CHALLENGES TO MEETING EITI REQUIREMENTS: RECORDS

The EITI Board listed seven corrective actions following the Validation undertaken in early 2013 and the EITI Secretariat undertook a review of progress in November 2014, concluding that the corrective actions had not been fulfilled. Our recommendations are relevant to continuing progress toward completing these corrective actions.

8.1.1 RECORD KEEPING

The standard of record keeping in many of the reporting entities requires improvement. Whilst computerisation will assist control over data, there are simple steps which can be taken in the short term to improve control over key records and increase confidence in information produced by government and SOEs in particular. This information is needed for EITI and more generally for reporting within and outside government.

Based on our limited engagement with reporting entities to obtain supporting documentation for amounts reported – and not reported – we observed in many cases that financial records (invoices, payment documents, etc.) and other critical records (contracts, permits, etc.) which are prepared and issued in hard copy did not appear to be systematically filed.

8.1.1.1 Recommendation on record keeping

We recommend that Government departments and SOEs should devise a suitable process and filing system to manage the manual records, and should provide training to staff on the importance of maintaining the systems. Assistance from professionals in process review should be considered, so that experience and good practice from other countries can be brought to bear.

We suggest that the review should be treated as a matter of priority.

8.1.2 MOMP FINANCIAL SYSTEMS IN MOMP AND MOF

Previous reports have contained recommendations that the paper based accounting systems should be replaced by computerised accounting systems. We concur with the principle, but believe that there are other related issues which require attention so that computerisation is effective.

The responsibilities between regional and central offices of the ministries need clearer definition; and the responsibilities for dealing with certain companies need to be clarified. We found two companies where the LTO was responsible for revenue collection, but the central LTO had no records; and we found in another instance a company where the LTO was responsible, but at least one payment was handled by MTO.

It is a common practice in many countries that all extractive companies are dealt with in one tax office, usually the LTO (or equivalent) because they are usually major revenue contributors. Artisanal operations would not fall under the LTO, but might have their own section. An advantage of such centralisation would be that a reservoir of knowledge would be built up in the tax office.

8.1.2.1 Recommendation on MOF organisation

We recommend that MOF-LTO be given responsibility for all major corporate mining and oil and gas taxpayers, and that the Kabul-based Ministry ensures that it holds details of all relevant records and transactions relating to those companies.

8.1.2.2 Recommendation on complete list of extractive companies

We recommend that MOF-LTO and MOMP prepare and maintain a list of all major corporate mining and oil and gas companies, with each Ministry holding a combined list of companies, licences held and Taxpayer Identification Numbers

8.1.2.3 Recommendation on computerised systems

We recommend that computerised accounting information systems be specified for MOMP and for the MOF Revenue and Customs Divisions, taking account of the responsibility recommendations above; and that after approval at the highest level within each Ministry, these systems be implemented, with appropriate and continuing training provided to staff.

In devising systems, we recommend that the existing skill levels, staff capacities and locally available support are examined, and that the systems are suitably tailored.

8.1.3 MOMP CADASTRE

There is a need to produce a reliable cadastre, covering licences issued centrally and regionally, and we note that a project is in process. We recommend that this project is concluded on a timely basis, and that reliable cadastre records are made publicly available and meeting Requirement 3.9 of the EITI Standard.

8.2 CHALLENGES TO MEETING EITI REQUIREMENTS: ASSURANCE

8.2.1 GOVERNMENT

The Afghan SAO is now re-admitted to membership of INTOSAI and is working with an international firm of accountants and auditors to rebuild the capacity of CAO staff under a project approved by the Transitional Government of Afghanistan and funded by the World Bank.

8.2.1.1 Recommendation on SAO capacity building

We recommend that the strengthening of the SAO and training of its staff is continued, and that the importance of its role within Afghanistan is maintained.

8.2.1.2 Recommendation on SOE

We note that the SAO does not issue an opinion on the government accounts or on the accounts of the two SOEs included in the EITI reconciliation (Northern Coal and Afghan Gas) and recommend that the SAO should conduct its audit of SOEs under International Standards on Auditing and should express an opinion on the accounts. As an alternative, the SAO should engage a suitably qualified independent firm to conduct the audit under these standards; and the government should, if necessary, pass legislation enabling appointment of an independent auditor for this purpose.

We further note that the report on the SOEs, currently addressed to the Ministry of Mines and Petroleum, should be addressed to the Minister.

8.2.2 COMPANIES

The requirements for audit vary:-

- there is no requirement in law for company accounts to be audited.
- the Amu Darya PSC requires that the Contractor (CNCPI-Watan Oil and Gas Afghanistan Ltd) should produce accounts audited by an independent chartered accountant or certified public accountant, although the audit standards to be used are not specified
- the English summaries of the EPSCs for the Sanduqli and Mazar-i-Sharif blocks makes no reference to audit

There is no professional body in Afghanistan to set accountancy or audit standards and there are few trained accountants in companies.

It is important that standards are improved in the private sector so that greater assurance is available on figures reported for EITI, and for other purposes. In a country where there are few qualified auditors, it may appear difficult to legislate that audits are carried. However, in an environment where audits are not required, there is no need for qualified auditors to practise.

8.2.2.1 Recommendation on PSC requirements

We recommend that government should include a provision in all PSCs and EPSCs that an annual audit should be conducted within 12 months of the Contractor's year end by an independent chartered accountant or certified public accountant, using international standards on auditing.

8.2.2.2 Recommendation on legislation

We further recommend that the government should introduce legislation requiring all major extractive companies (major to be defined by reference to a suitable metric – e.g. annual turnover) to produce annually accounts audited by an independent chartered accountant or certified public accountant, using international standards on auditing; and to assign responsibility to a government body – e.g. the SAO – to receive these accounts and follow up late reporting companies.

The MSG should convey these recommendations to government through the MOF EITI Champion and should follow up on the government response and progress, to be reported in the next EITI report.

8.3 CHALLENGES TO MEETING EITI REQUIREMENTS: COMPLETENESS OF DATA

We recommend that in the short term (e.g. for the Fifth AEITI Report), MOF and MOMP should consider bringing in additional professional resource to assist in the preparation of scoping and reporting data for future reports; and that a capacity evaluation and training needs assessment be undertaken, and capacity building measures be implemented so that there is an improvement in staff competence in the medium term.

8.4 SCOPE OF EITI IMPLEMENTATION

8.4.1 ARTISANAL AND SMALL SCALE MINING

In the light of the information provided in the GIZ IS report, there is a need to determine how much revenue is being collected by or on behalf of government from the ASM sector. The need to examine this area is independent of efforts to regulate ASM activity.

The location and informal nature of much artisanal and small scale mining mean that a comprehensive approach to the activity will be difficult and will take time; and social objectives will also be important in any wider approach. Nevertheless, the GIZ IS report states that revenue is being passed to government and that product is being exported and so liable to collection of duties, and MOMP and MOF should have a legitimate interest in obtaining further information.

We recommend that prior to the next EITI report, MOMP and MOF with AEITI should examine the areas where the GIZ IS report identifies revenue to the government with a view to seeking to incorporate them into EITI reporting.

For the longer term, the MSG should determine a strategy to incorporate the ASM and gemstone sector into its implementation of EITI, with the goal of including the strategy in the next EITI report.

8.4.2 FLOWS TO SUB NATIONAL GOVERNMENT

The report on municipalities gives basic information on revenues collected by sub national government bodies. We recommend that the MSG should commission further work to examine flows from the extractive sector to sub national government, to seek to quantify them and to determine the extent to which these are material.

8.5 PRODUCTION

The figures reported by MOMP and companies in respect of 1391 (Mar-Dec 2012) and 1392 (2013) contained a number of differences. Information on production is important both as an indicator of economic activity and also because it forms the basis for the calculation of royalty; inaccurate or unreliable information could lead to government revenue loss.

We recommend that the MSG should investigate these differences and identify any systematic weaknesses.

8.6 OTHER MATTERS

8.6.1 CHAIRMANSHIP OF THE EITI PROCESS

We recommend that in the short term, MOF and MOMP should consider bringing in additional professional resource to assist in the preparation of scoping and reporting data for future reports; and that a capacity evaluation and training needs assessment be undertaken, and capacity building measures be implemented so that there is an improvement in staff competence in the medium term.

8.6.2 COMPANIES OMITTED FROM THE MOMP LIST OF REPORTING COMPANIES

The AEITI MSG should follow up why Ghazanfar Investments Limited was incorrectly omitted from the MOMP list (section 2.4.2.1.2 refers).

9 ARTISANAL AND SMALL SCALE MINING

GIZ IS has produced a report entitled "Artisanal and Small Scale Mining in Afghanistan: Background and Context – an Interim Report". In this section, we set out a number of key issues highlighted by the report. We have not carried out any validation of the report's content.

Comments and conclusions in this chapter are taken from the report and do not represent the views of the Independent Administrator.

After a preface, the report describes the ASM activities under the following headings:-

- Small scale mining: definition
- Artisanal and small scale mining: characteristics
- Afghanistan's gemstone localities
- Size of the Afghan gemstone sector: by value
- Size of the Afghan gemstone sector: by village
- Snapshots of Afghan gemstones

Refer to Appendices: 10.13 for the full text of the GIZ IS report.

9.1 SCALE OF ASM ACTIVITY

GIZ IS comment that understanding of the sector is inadequate, but is advancing rapidly to the point where interim conclusions are possible. The authors note that there is a rapidly growing mass of factual evidence demonstrating that the Afghan Gemstone Sector is much larger than hitherto supposed in terms of the number of gemstone localities, active gemstone mines, and the diversity of precious and semiprecious stones occurring in Afghanistan.

While it is difficult to ascertain the true extent, ASM activities in Afghanistan are at least as important as large scale mining operations, in particular in terms of the number of people involved. It is estimated that across the country some 50,000 miners are directly involved in ASM, an estimated 10,000 to 15,000 of whom in the extraction of gemstones. The number of people involved in upstream and downstream ASM related businesses is estimated in the range of 200,000 to 450,000. Hence it can be assumed that around 3 to 6% of the Afghan labour force depends at least partially on the ASM sector to make a living. In some mountainous and remote parts of the country, ASM provides employment where other livelihood opportunities are critically limited. The jobs created by artisanal mining operations constitute an important source of income for the rural poor. Although it may not be realistic to establish a fixed amount of income for ASM activities, preliminary evidence indicates that incomes of ASM miners might be higher than the national average. Hence the sector - while small-scale - is economically and socially significant, in particular when regarded on a national scale.

9.2 REGULATION AND ECONOMICS

The authors believe that many of the potential benefits are lost through poor practices - low lack of formalization and regulation, health and safety hazards, security risks and relatively few benefits through local beneficiation. While artisanal mining is permitted under the Afghanistan Mining Law, the majority of ASM activities are undertaken outside of the legal framework, with miners operating either illegally or informally. Hence, the sector's contribution to formal economic accumulation remains relatively small.

While value chain operations for some semi-precious stones - in particular lapis lazuli - have increased throughout the last few years, they remain virtually non-existent for high-value stones such as emeralds and rubies. Gemstone value chain operations traditionally add up to 40% of gemstone value to its original value but in Afghanistan, much of this potential is still lost. In 2007 it was estimated that around 95% to 99% of gemstone leave the country illegally without being registered and further processed[262]

The majority of ASM activities are undertaken outside of the legal framework, with miners operating either illegally or informally. While the government has already undertaken extensive reforms of regulatory and legal frameworks that permit artisanal miners to operate, lack of knowledge about formalization requirements and lack of incentives to operate legally pose major challenges. Royalty rates and other costs are currently far beyond comparable international value. Moreover, formalization efforts sometimes conflict with long-standing customary rights regimes. Many miners fear government interference and the criminalization of their existing mining operations. Implementing a property regime based on the rule of law is therefore not an easy and straight-forward endeavour.

Since the majority of mineral production continues to be dominated by informal ASM operations, the sector's contribution to formal economic accumulation is relatively small but not always insignificant, as the case of the lapis lazuli mines in Badakhshan illustrates (tax payments in 2014: 630,000 USD). While the lapis lazuli mines were an isolated case in which a gemstone mine was put into a provincial tender on the basis of the 2012 Afghanistan Mining Law, revenue sharing and tax collection agreements have also been in place for other mines and minerals. Yet in the past, the framework in which these agreements had been operating often did not reflect all aspects of the Minerals Law: mining rights were either awarded without the necessary application of all legal provisions or mining simply took place outside the scope of any government participation. This resulted in ad hoc resource extraction with limited state returns in the form of royalties, licensing and authorization fees that would ordinarily revert in support of the national budget.

The authors comment that formalisation requires enforcement on the ground and there are many issues associated with achieving regulatory oversight of a large number of small operations often located in remote and volatile areas. The capacity of state services to oversee the ASM sector remains extremely limited. Lack of means, personnel and technical knowledge are compounded by a weak security situation which prevents the government from establishing an administrative presence in the mining areas.

Evasion of official taxes is not only by illegal and un-registered extraction but also by other means such as under-declaration of quantities, false declaration of grades of stones, and the smuggling of minerals. Due to these problems, the vast majority of stones leave the region and the country without being registered. It is estimated that 95% to 99% of gemstones are smuggled out of the country, mainly across the border to Pakistan. Minerals that are exported via mainstream legal channels, e.g. Torkham border

---

[262] Gary Bowersox, Donna Sibley, Lawrence Snee and Mary Louise Vitelli (2007). Assessment of Afghanistan Gemstone Industry. Sibley International Corporation for Development Alternatives Inc.(DAI). USAID Afghanistan SME Development Project, 23 pages.

crossing to Pakistan, are often wrongly declared by the traders. At this crossing, no facilities exist to verify if a truckload coincides with what is written in the export documents.

9.3 EMPLOYMENT

Gemstone mining in Afghanistan is predominantly an ASM activity that is carried out by people living in villages surrounding the mines. It is difficult to ascertain the true extent due to the predominantly informal nature of ASM, the high number of seasonal and occasional workers and the lack of official statistics. However, unofficial estimates suggest that more than 50,000 people are already involved in ASM activities, extracting coal, metal ores, industrial minerals, gold and gemstones. The total number of people involved in gemstone extraction is estimated in the range of 10,000 to 15,000. Other major ASM commodities are marble and ornamental stones, as well as construction materials, for which a number of 20,000 miners appears realistic. Minor ASM commodities, notably chrome ore, salt, gypsum and talc, are estimated to account for another 5,000 workplaces.

Many more people are also involved in auxiliary spin-off economic enterprises such as the trade and processing of minerals and the delivery of other services to mining communities. Optimistic estimates are that for every mining job in a developing country an addition 90 jobs may be created[263]. This number seems overly ambitious within the Afghan context. In the case of lapis lazuli, for instance, the total number of people directly involved in upstream and downstream related businesses is estimated in the order of 10,000 which compares to a number of approximately 1,000 miners. This number is substantially lower for high-value gemstones (e.g. emeralds and rubies) for which domestic processing skills remain virtually non-existent. Conversely for other minerals, employment generation in upstream and downstream businesses might be even higher. Assuming a low median average of 5 to 10 additional jobs created, this would mean that around 250,000 to 500,000 people earn at least part of their incomes from ASM-related activities. This compares to a total labour force of around 8 million people[264]. Hence around 3% to 6% of the total Afghan labour force might depend at least partially on the ASM sector to make a living.

While globally it is estimated that around 30% of ASM is undertaken by women, both the mining and the trading of gemstones in Afghanistan are male-dominated activities. Women are however frequently engaged in the processing stage, in particular in the polishing of gemstones and the production of jewellery. No child-labour has been observed in the lapis lazuli mines of Badakhshan or the Panjshir emeralds mines. In contrast, child labour in brick clay quarries exceeds 50% near Kabul[265].

9.4 AFGHANISTAN'S GEMSTONE LOCALITIES

The report gives an overview of the sites throughout Afghanistan:

9.4.1 LOW-VALUE SITES

[263] Gary Bowersox, Donna Sibley, Lawrence Snee and Mary Louise Vitelli (2007). Assessment of Afghanistan Gemstone Industry. Sibley International Corporation for Development Alternatives Inc.(DAI). USAID Afghanistan SME Development Project, 23 pages.
[264] World Bank figure
[265] ILO (2012). Buried in bricks: A rapid assessment of bonded labour in brick kilns in Afghanistan. International Labour Organisation (ILO). www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_172671.pdf

Low-value sites are geological sites yielding common lapidary material ideal for making low-cost jewellery affordable by all strata of Afghan society. Low-value sites are therefore crucial for the sustainability of village craft jewellery production. The attractiveness, low price and ease of availability render some stones suitable for making beads and cabochons notably: chalcedony, agate, jasper, chert, onyx, chrysocolla, Afghan jade (=bowenite), marble and magnesite. Such materials are attractive but relatively inexpensive as they usually lack the transparency to warrant cutting and polishing.

Low-value Sites are widespread and appear to be present in nearly all the 33 provinces of Afghanistan. The GIZ team is actively preparing a report for the Small Mines Directorate on the locations of Low-value sites.

9.4.2 COMPLEX-VALUE SITES

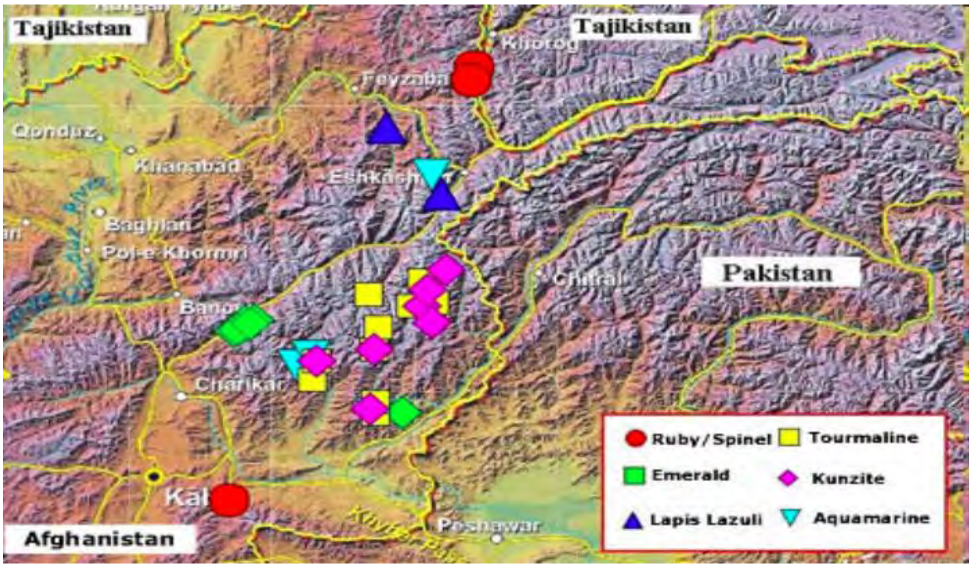
Complex-value sites are numerous geological sites that are difficult to classify. For instance many sites are mined for high-value gems such as kunzite but may also be profitable to mine for ores of tin (cassiterite), tungsten (wolframite), tantalum and niobium (Tantalite-coltan-columbite). Complex-value sites may produce not only high-value gems but also many tonnes of low-value gems, notably attractive garnet crystals suitable for cutting and polishing for village jewellery production for the domestic and regional markets.

9.4.3 HIGH-VALUE SITES

High-value sites are geological sites yielding internationally rare lapidary material such as lapis lazuli, and geological sites yielding internationally sought crystals of high-value gems such as ruby, sapphire, aquamarine, emerald, tourmaline and kunzite. Most of the rough crystals are destined for the international cut and polished „coloured gem market‟. Sometimes the rough material includes spectacular crystals and these are mined for export to international collectors, notably: bi- coloured tourmaline and kunzite.

High-value sites are found in many provinces. However the greatest concentration is in five north-eastern provinces of Afghanistan: Badakhshan, Nuristan, Laghman, Kunar and Panjshir. This region has long been famous for its world-class lapis lazuli, emerald, spinel, kunzite and aquamarine. The illustration below is a map that shows the main clusters of high-value sites as understood 20 years ago. Since then many more high-value sites have been identified, and in particular the same region is now also a gem producer of sapphires and morganite.

The map also shows the cluster of high-value sites that produce world-class rubies near Gandamak close to Kabul but closer to the porous border with Pakistan.



Map: www.gemselect.com

Not surprisingly the bulk of Afghanistan's high-value gems are smuggled across the border on long-established tracks and trails across desolate mountains and through dense forests. As well as the smuggling of high-value gemstones, the authors say they have strong evidence that significant tonnages of low-value gems are also smuggled into Pakistan. These low-value gems, notably garnets, are by-products of the ASM mines producing high-value gems. The volume of garnets is so great that many are now traded inside Afghanistan northwards to Faisabad and Ishakim and surplus garnets presumably exported from there to Tajikistan and beyond.

9.5 SIZE OF THE AFGHAN GEMSTONE SECTOR: BY VALUE

The GIZ IS report states that the size of the Afghan Gemstone sector by value remains largely unknown. Indeed all previous studies have been focussed only on the high-value gems, and have paid little or no attention to low-value gems and common lapidary materials.

9.5.1 HIGH-VALUE SITES

High-value sites feature in every report on the Afghan Gemstone Sector and are a popular topic for endless public debate on border security, loss of State revenues, smuggling, corruption, anti-government forces etc.

The size of the Afghan Gemstone Sector was estimated in the 2004 World Bank Report "Mining as a Source of Growth" to be in the range of 3 to 20 million USD per year[266]. The following year the size was estimated in a 2005 UNDP/MCC report by Altai Consulting to be 10 million USD per year[267]. It is

[266] *Transitional Islamic State of Afghanistan - Mining as a Source of Growth*. The World Bank, Report No. 28231-AF, 134 pages. wwwwds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004/03/26/000160016_200403261 11059/Rendered/PDF/282310AF.pdf

[267] Justine Rubira, Hakara Tea ,Charles Clinton Weaver Carter, Najibullah Ziar, Mohammed Farhad Naimzada, Abdul Satar Haydari and Rodolphe Baudeau (2005). Chapter VIII*: Precious and Semi-Precious Stones*, pages 206-249 IN: Market Sector Assessments. SME Development., UNDP/Ministry of Commerce Partnerships for Private Sector Development (PPSD) project. http://altaiconsulting.com/docs/sme/Altai%202005%20Market%20Sector%20Assessment%20SMEs.pdf

now clear that both these assessments grossly underestimated the true size of the High-value Gemstone Sector, and made scant mention of the Low-value Sector.

The size of the Afghan Gemstone Sector was estimated in the 2014 MoMP/MCI "*Action Plan for the Gemstones and Jewellery Industry*" to be in the range of USD 30 to 80 million per year in terms of the value of gemstones mined[268].

Recent research by a professor of Kabul University concluded that every year gemstones worth 267 million USD are smuggled out of the country[269]. The report remains unpublished but we assume it is focussed only on high-value gemstones.

This vast difference between these estimates shows the difficulty in determining the size of the Afghan Gemstone Sector. A realistic number for gemstone production could be anywhere between 50 and 300 million USD per year. But this would be subject to definition. For instance, lower grade lapis lazuli is not considered to be of gemstone quality. It should also be noted that gemstone traders in Afghanistan tend to base prices simply on supply and demand rather than on international market prices. Often the stones are sold drastically below their actual value.

9.5.2 LOW-VALUE SITES

Low-value sites receive scant attention in previous reports on the Afghan Gemstone Sector and are rarely a topic of media concern. The GIZ team is mapping the distribution of Low-Value Sites with the Small Mines Directorate to determine the scale of the ASM activities and the security of supply of low-value lapidary materials that are absolutely essential for the sustainability of artisanal jewellery production in more than 2,690 villages.

GIZ/SMD investigations are underway on supply chain issues relevant to sustaining the large village craft jewellery industry, for instance:

1. Identifying existing domestic sources for lapidary-quality Afghan Jade (Bowenite)
2. Identifying existing domestic sources for lapidary-quality Turquoise
3. Identifying future domestic sources for lapidary-quality Shungite
4. Identifying future domestic sources of jewellery-quality Alluvial Gold Micro-nuggets

9.5.3 HIGH-VALUE MINERAL SPECIMENS

High-Value mineral specimens are an important part of the Afghan Gemstone Sector. Most are sold as valuable rough gems, with the buyer's aim to have the crystal expertly cut and polished, and destined to be the centrepiece of high-end jewellery. Indeed this is the normal fate of tourmaline, emerald and ruby from Afghanistan. But in tandem there is a large world market for perfect crystals of gems, with the buyer investing in the natural beauty of the uncut crystal.

[268] MoMP and MCI (2014). *Implementing the SME Strategy: An Updated Action Plan for Developing Afghanistan*"*s Gemstone and Jewellery Industry. (December 2014-November 2017)*, Ministry of Mines and Petroleum, and Ministry of Commerce and Industry, 23 pages. http://afghanenterprise.com/wp- content/uploads/2015/02/Gemstones-Jewelry-Action-Plan.pdf

[269] http://www.tolonews.com/en/business/21027-267m-worth-of-gem-stones-smuggled-annually

In Afghanistan high-value sites for gems for cutting are also capable of producing perfect crystals of the same gem that may command an even higher price. International buyers from the USA, Germany and Israel etc. cultivate relations with Afghan miners and Afghan/Pakistan dealers in order to see the best crystals. Recently a spectacular tourmaline crystal, known as “The Rose of Asia” was carefully extracted from a spodumene pegmatite in slate in the Kéhi Dara Valley, south of the Paprok village in Nuristan. By unanimous acclaim from gemmologists worldwide is the world’s most beautiful tourmaline crystal. The “Rose of Asia” has been valued at more than 1 million USD, and at gem shows in the USA, Germany and China is attracting much media and public attention to Afghanistan and its gems.

The size of the Afghan Gem Crystal market may be in the order of 5 to 10 million USD a year. As the intrinsic value is in the uncut beauty of the crystal, there is no scope for added-value by producing jewellery in-country.

PHOTO: The Afghan “Rose of Asia” – the world’s most magnificent tourmaline

9.6 SIZE OF THE AFGHAN GEMSTONE SECTOR: BY VILLAGE

9.6.1 INTRODUCTION

Size by value is dealt with in the previous section, and focussed on the high-value gemstone market for which several estimates have been attempted. No estimates exist for the size by value of the low-value gemstone market.

Size by village is a novel attempt by the GIZ team to estimate the size of the low- value gemstone market indirectly, solely on the basis of the number of Afghan villages involved in craft jewellery production.

9.6.2 JEWELLERY VILLAGES IN AFGHANISTAN

9.6.2.1 National Total of Jewellery Villages

The national total of jewellery villages producing artisanal craft jewellery is 2,920, according to the only blanket survey ever attempted throughout Afghanistan, conducted in 2003-2005 and published in 2005. Trained census surveyors visited almost every village. Reprocessing of the data by GIZ detected an arithmetic error, and the revised total is 2,690 jewellery villages. The most popular handicrafts in Afghanistan are rugs and carpets, produced in approximately 7,800 and 4,500 villages respectively, i.e. 44% and 26% of all villages engaged in handicrafts. Jewellery items rank third with 2,690 villages (15.3%).

9.6.2.2 League Table of Number of Jewellery Villages per Province

The provincial total of jewellery villages is presented in 33 reports, one per Province. This enabled us to prepare a League Table of the 33 Provinces (see Table 9A below).

The Provincial League Table is remarkable in many respects, notably:

1. Four of the 33 provinces contain nearly half the Afghan jewellery villages.
2. The four provinces are juxtaposed: Ghazni (379), Dykundi (309), Bamian (295), Ghor (182) and justifies the term „AFGHAN JEWELLERY VILLAGE SUPERCLUSTER"
3. Provinces engaged in mining high-value gems have very few jewellery villages: Nuristan (2), Langman (5), Panjshir (6), Kapisa (12).

9.6.2.3 League Table of Number of Jewellery Villages per District

The district total of jewellery villages is also presented in the set of 33 reports. This enabled us to prepare a League Table of the 386 Districts (not presented).

The District League Table is also remarkable, for instance:

1 237 of the 386 Districts have at least one village where craft jewellery is recorded.

2 Panjab District in Bamiyan Province has more than 150 jewellery villages.

3 Ishterlai District in Daykundi Province as 150 jewellery villages.

4 Jaghuri District in Ghazni Province has 101 jewellery villages.

5 Hissa-Behsud District in Wardak Province has 100 jewellery villages.

6 Together, these 4 districts contain nearly 50% of the jewellery villages of the Afghan Supercluster, equal to about a fifth of all jewellery villages in the country.

PROVINCE	JEWELLERY VILLAGES	% of jewellery villages
Ghazni	379	14.1%
Dykundi	309	11.5%
Bamiyan	295	11.0%
Ghor	182	6.8%
Sar-I-Pul	157	5.8%
Herat	149	5.5%
Balkh	118	4.4%
Helmand	107	4.0%
Baghlan	97	3.6%
Farah	93	3.5%
Paktya	82	3.0%
Zabul	65	2.4%
Samangan	61	2.3%
Kandahar	61	2.3%
Badakhshan	55	2.0%
Kunduz	55	2.0%
Jawzjan	53	2.0%
Nagarhar	45	1.7%
Urozgan	44	1.6%
Faryab	40	1.5%
Takhar	39	1.4%
Khost	37	1.4%
Badgis	35	1.3%
Kabul	32	1.2%
Logar	26	1.0%
Paktika	26	1.0%
Parwan	13	0.5%
Kapisa	12	0.4%
Kulnara	9	0.3%
Panjshir	6	0.2%
Langman	5	0.2%
Nuristan	2	0.1%
Nimroz	1	0.0%
TOTALS	**2,690**	**100.0%**

Table 9A: League table of Jewellery villages per province

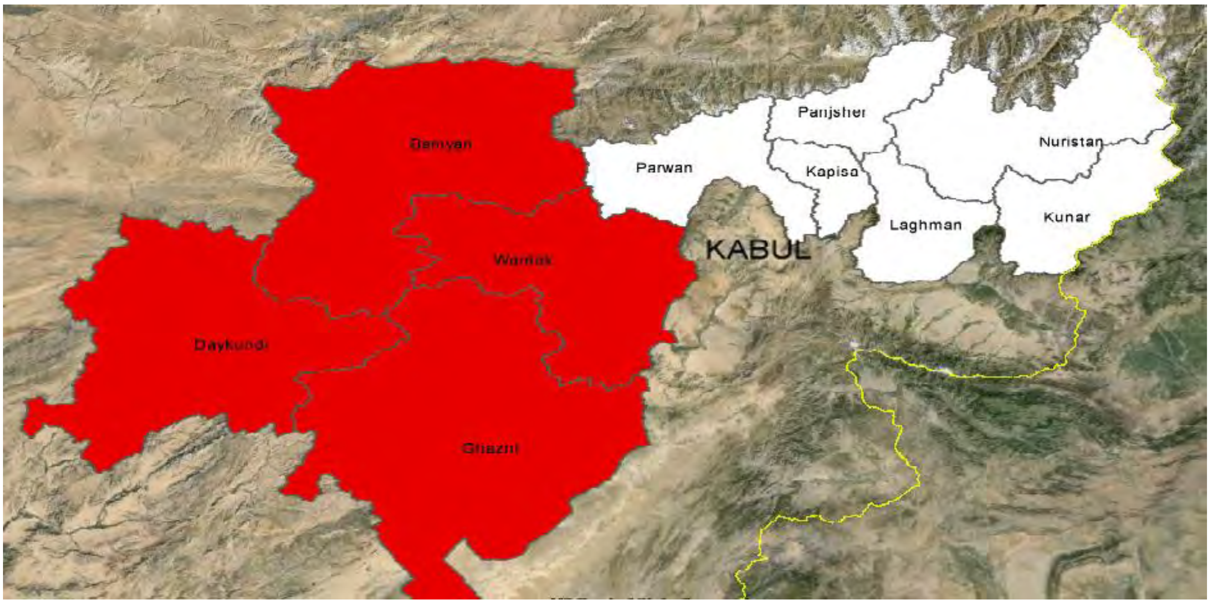
9.6.2.4 *Highest and Lowest Number of Jewellery Villages*

A distinctive geographical pattern is revealed by the " League Table of Jewellery Villages per Province" using Google Earth:

1 The Supercluster of Jewellery Villages is made apparent

2 By plotting the 4 provinces with the highest number of jewellery villages (RED below), the existence of the Afghan Supercluster of Jewellery Villages is made apparent.

3 By plotting 6 of the 7 provinces with the lowest number of jewellery villages (WHITE below), they are seen to be juxtaposed in a swathe of territory that coincides fairly well with most of Afghanistan"s important areas for high-value gems such as Panjshir and the Nuristan region.



The reason for the scarcity of jewellery villages (WHITE above) is unclear. Many factors may be involved, perhaps the most likely being among the following:

1 The mining in these provinces produces high-value gemstones and therefore jewellery villages cannot afford to buy them, and the jewellery is too expensive for the domestic market.

2 The few jewellery villages that exist lack the skills and machinery essential for cutting and polishing high-value gemstones.

3 The region is inconvenient for international buyers and therefore most rough gems are transported to Kabul and Peshawar in Pakistan.

4 In these provinces, mining of high-value gemstones is much more profitable than mining low-value gemstones and therefore the low-value gemstones are often left in the ground.

5 Nevertheless medium to low-value gemstones are produced as by-products in the high-value mines but the jewellery villages lack the skills, machinery and capital to cut and polish them.

- Some of the best low-value gemstones are also smuggled to Pakistan causing a shortage of raw materials and higher prices.

6 The mountainous roads, harsh winters and uncertain power supply render craft jewellery difficult.

7 Strong cultural and socio-economic factors may also apply

9.7 GEMSTONE OCCURRENCES

The final chapter of the GIZ report describes

- the lapis lazuli mines of Badakhshan
- other gemstone localities in Badakhshan
- the emerald mines of Panjshir
- the ruby mines of Jegdalek, Kabul province
- the pegmatite gems of Nuristan, Langhman and Kunar

and other gem quality materials.