

Board decision on the Validation of Honduras

Decision reference: 2017-52/BM-38/BP-38-6-B

On 25 October 2017, the EITI Board came to the following decision on Honduras' status:

Following the conclusion of Honduras' Validation, the EITI Board concludes that Honduras has made meaningful progress overall in implementing the 2016 EITI Standard.

The Board recognises Honduras' efforts to institutionalise extractive industry transparency through the 2013 Mining Law and contracts in the hydrocarbon sector that require companies to comply with the EITI Standard. The licensing and cadastre system and other internal procedures have been overhauled, using the EITI as guide.

Validation demonstrated that the EITI has brought together government, industry and civil society in trust-building collaboration. Stakeholders have worked together to provide an unprecedented and comprehensive review of the extractive industries. Validation has also highlighted important gaps, such as monitoring of production, modernization of the mining annual company declarations, the collection of municipal taxes and disclosures of mandated social payments.

The Board notes that there are further opportunities for the EITI to contribute to the government's reform agenda and to continued trust building, taking into account lower commodity prices and an uncertain outlook for further investment. The engagement of all three constituencies needs to be reinvigorated. The government should provide adequate support and funding for EITI-Honduras, and ensure that the hosting of the national secretariat is resolved.

The MSG is encouraged to consider further opportunities to add value, e.g., by further improving the cadastre system to include beneficial ownership information, harmonizing the classification of extractive companies by the mining regulator, and integrating revenue collection data in the systems of the tax agency (SAR). The government should also continue to explore opportunities to integrate the EITI's disclosure requirements in existing systems in the mining regulator, the tax agency, the finance ministry and Institute for Access to Public Information (IAIP).

While the EITI has made a good start in building trust, the information produced through the EITI needs to be put to better use. The data could be used to examine whether revenue collection is satisfactory, and disclosing municipal-level information on revenue transfers and the utilisation of these funds. Other issues such as the cost structure in the mining industry and social contributions from mining companies could be more widely addressed and discussed.

The Board has determined that Honduras will have 18 months to carry out corrective actions regarding the requirements relating to government engagement (requirements 1.1), industry engagement (1.2), civil society engagement (1.3), EITI work plan (1.5), comprehensiveness of revenue disclosures (4.1), direct subnational payments (4.6), data quality and assurance (4.9), mandatory social expenditures (6.1), economic contribution of the extractive sector (6.3), public debate (7.1), follow-up on recommendations (7.3) and outcomes and impact of implementation (7.4).

The Board believes that this will help build trust in the sector, demonstrate the commitment of all stakeholder groups to transparency and accountable management of the country's natural resources, and







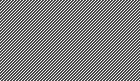
ensure that there is reliable information available to help inform public debate and policy discussions related to the extractive industries.

Assessment card

The EITI Board agreed the following assessment card:

EITI Requirements		Level of progress				
		No progress	Inadequate	Meaningful	Satisfactory	Beyond
Categories	Requirements					
MSG oversight	Government engagement (#1.1)					
	Industry engagement (#1.2)					
	Civil society engagement (#1.3)					
	MSG governance (#1.4)					
	Work plan (#1.5)					
Licenses and contracts	Legal framework (#2.1)					
	License allocations (#2.2)					
	License register (#2.3)					
	Policy on contract disclosure (#2.4)					
	Beneficial ownership (#2.5)					
	State participation (#2.6)					
Monitoring production	Exploration data (#3.1)					
	Production data (#3.2)					
	Export data (#3.3)					
Revenue collection	Comprehensiveness (#4.1)					
	In-kind revenues (#4.2)					
	Barter agreements (#4.3)					
	Transportation revenues (#4.4)					
	SOE transactions (#4.5)					
	Direct subnational payments (#4.6)					
	Disaggregation (#4.7)					
	Data timeliness (#4.8)					
	Data quality (#4.9)					
Revenue allocation	Distribution of revenues (#5.1)					
	Subnational transfers (#5.2)					
	Revenue management and expenditures (#5.3)					
Socio-economic contribution	Mandatory social expenditures (#6.1)					
	SOE quasi-fiscal expenditures (#6.2)					
	Economic contribution (#6.3)					
Outcomes and impact	Public debate (#7.1)					
	Data accessibility (#7.2)					
	Follow up on recommendations (#7.3)					
	Outcomes & impact of implementation (#7.4)					
Overall assessment	Meaningful progress					

Legend to the assessment card

-  The country has made no progress in addressing the requirement. The broader objective of the requirement is in no way fulfilled.
-  The country has made inadequate progress in meeting the requirement. Significant elements of the requirement are outstanding and the broader objective of the requirement is far from being fulfilled.
-  The country has made progress in meeting the requirement. Significant elements of the requirement are being implemented and the broader objective of the requirement is being fulfilled.
-  The country is compliant with the EITI requirement.
-  The country has gone beyond the requirement.
-  This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.
-  The MSG has demonstrated that this requirement is not applicable in the country.

Recommendations

The EITI Board agreed the following corrective actions to be undertaken by Honduras. Progress in addressing these corrective actions will be assessed in a second Validation commencing on **25 April 2019**:

1. In accordance with requirement 1.1, the government should demonstrate that it is fully, actively and effectively engaged in the EITI process. The government should demonstrate its commitment to by providing adequate support and funding for EITI-Honduras. The government should consider hosting the National Secretariat in a government agency already involved in EITI work. The MSG should ensure that the Secretariat provides adequate support and coordination to deliver the agreed work plan. In accordance with requirement 8.3.c.i, the government is requested to develop and disclose an action plan for addressing the deficiencies in government engagement documented in the initial assessment and validator's report within three months of the Board's decision, i.e. by **25 January 2018**.
2. In accordance with requirement 1.2, industry should demonstrate that it is fully, actively and effectively engaged in the EITI process. The industry constituency should review its engagement in the EITI, consider opportunities to work more closely with the MSG to ensure that EITI-Honduras discusses, addresses and communicates more effectively not only the Standard-mandated disclosures but other issues of interest to the industry constituency. This assessment should inform and be reflected in the MSG's revised work plan. In accordance with requirement 8.3.c.i, industry is requested to develop and disclose an action plan for addressing the deficiencies in industry engagement documented in the initial assessment and validator's report within three months of the Board's decision, i.e. by **25 January 2018**.
3. In accordance with requirement 1.3, civil society should demonstrate that it is fully, actively and effectively engaged in the EITI process. The civil society constituency should review its engagement in the EITI, clarify the objectives for EITI engagement, and explore options to ensure that it has adequate technical and financial capacity to participate fully in the process. Such an assessment could inform and be reflected in the MSG's revised work plan. CSOs could also consider reinvigorating its participation in the MSG by, for example, refreshing its representation. In accordance with requirement 8.3.c.i, civil society is requested to develop and disclose an action plan for addressing the deficiencies in civil society engagement documented in the initial assessment and validator's report within three months of the Board's decision, i.e. by **25 January 2018**.
4. In accordance with requirement 1.4, the MSG is encouraged to reconfirm the MSG membership and agree clear rules for rotating representatives of the MSG member organizations and ensure that these procedures are followed and documented.
5. In accordance with requirement 1.5, the MSG should agree a revised and fully costed work plan. The MSG should review the outcomes and impact of EITI implementation to date and revise the work plan objectives to ensure that they are clearly aligned with the national priorities for the extractive industry. The revised work plan would be an opportunity to reinvigorate government, industry, civil society and donor engagement. The Government could consider convening an EITI national conference to agree high-level objectives to inform future EITI work.

6. In accordance with requirement 2.3, the government is encouraged to provide INHGEOMIN with resources to update the technological platform supporting the cadastre system to allow improved public accessibility.
7. In accordance with requirement 3.2, the MSG might wish to include in future reporting information on how the production volumes and values are calculated and any other information that could enhance the understanding on how mining production is monitored. The MSG may wish to explore working with the mining regulator INHGEOMIN, the customs agency and the finance ministry in ensuring mining production is properly recorded and monitored. The EITI Report can be used to comment on progress addressing these issues.
8. In accordance with requirements 3.2 and 3.3, the government is encouraged to continue strengthening INHGEOMIN's internal systems including the modernization of the consolidated annual declaration (DAC) and monitoring capacities and the collaboration with the customs agency, including harmonization of procedures.
9. In accordance with requirement 4.1, the MSG should ensure that future reporting adheres to the standard terms of reference approved by the EITI Board. In particular, the MSG should adopt a definition of materiality that ensures that the scope of the reporting process is comprehensive and that all material companies participate. The MSG is encouraged to work with government authorities including INHGEOMIN and SAR to developing a classification protocol that ensure that the universe of mining companies is clearly identified.
10. In accordance with requirement 4.6, the MSG should clearly establish whether direct payments, within the scope of the agreed benefit streams, from companies to municipalities are material. If material, the MSG should ensure that company payments to municipalities and the receipt of these payments are disclosed and reconciled in the EITI Report. The MSG is encouraged to consider collaborating with municipalities in mining areas to improve their capacity to collect, record and manage revenues from the extractive industries.
11. In accordance with requirement 4.9 and with the standard terms of reference, the MSG should ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness of the report. The Independent Administrator should also provide an assessment on the comprehensiveness and reliability of the (financial) data presented, clearly indicating the coverage of the reconciliation exercise based on the government's disclosure of total revenues.
12. In accordance with requirement 5.1, the MSG might wish to consider bringing more information about how the revenues collected through the Population security fee are budgeted and spent.
13. In accordance with requirement 6.1, the MSG should ensure that the reporting of social expenditures required by the Honduras Mining Law is comprehensive. Where the beneficiary of

the mandated social expenditure is a third party, i.e. not a government agency, it is required that the name and function of the beneficiary be disclosed.

14. In accordance with requirement 6.3, the MSG should ensure future EITI reporting includes the total of government revenues.
15. In accordance with requirement 7.1, the MSG is encouraged to consider developing a communication strategy to ensure that EITI disclosures and findings are communicated more effectively and contribute to public debate. This could include more analytical work, better linkages with the work advanced by other organizations, and addressing other issues such as industry cost structures.
16. In accordance with requirement 7.3, the MSG is encouraged to take a more active role in developing recommendations from EITI Reports, and monitoring progress with implementing these recommendations.
17. In accordance with requirement 7.4 and as suggested in recommendation 5 (requirement 1.5), the MSG might wish to review the outcomes and impact of the EITI implementation with a view on informing the discussion and elaboration of the next work plan, including setting specific implementation objectives that reflect the current national priorities for the extractive industry.

The MSG is encouraged to document the MSG's responses to these recommendations in the next annual progress report.

This decision can be found online under: <https://eiti.org/honduras-2017-validation>

The documentation on this Validation (Validation Report, MSG Comments and initial data collection) can be found here: <https://eiti.org/document/validation-of-honduras-2017-documentation>