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Natural Resources Revenue Sharing in Afghanistan

A Survey of social demands and expectations

With a Proposed

Procedure for Distribution of the 5% of the Natural Resources Revenues for Provincial Development

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Executive Summary

Afghanistan is a resource rich country with reserves estimated to worth around 3 trillion USD which almost have remained untapped. Facing a wind-down in international aid and assistance, Afghanistan is prompt to invest in its extractive industry to cover the state expenses and budget deficits and to fund its development projects to alleviate poverty in the country.

However, with the new amendment in the Minerals Law, a sound and reasonable legal framework has been laid down that would regulate the extractive industry; the sector requires more regulations to clarify all areas of activity and investment. One of the issues that deserve a good deal of attention is the re-distribution of revenues generated in the extractive sector. The Law, provides for two main mechanisms that would benefit the local communities and revenue generating regions. First, investment in development projects based on the Community Development Agreements to be carried out by the extractor company under supervision of the government, and second, allocation of 5% of revenues to the producing areas. But since the introduction of the Law in 2012, there has been a regulatory vacuum to enable the government to bring this provision of the Law into practice.

Therefore, the current study explores the allocation and distribution mechanisms for spending the 5% of the mining revenues based on literature review and focus groups deliberations and a survey of local communities. A proposed procedure/regulation for distribution of the 5% of the mining revenue was drafted based on the findings of the study (Please see Annex 1). Generally, the findings of the study highlight the following issues:

1- Perceptions of governance and management of the mining sector

Given the concerns over the potentials for horizontal conflicts emanating from geographical/natural distribution of resources across the country, it is important to understand if the people thinks the natural resources are used properly as a national wealth as defined in the Constitution. In both surveys of the focus groups and individual residents of the mining areas, the absolute majority believed that there was corruption in the mining sector with 95.2% in the individual survey and 82.4% in the focus groups survey. Moreover, 81% of the participants in the individual survey and 76.5% of the focus groups expressed concerns over lack of political will for sound management of the mining sector which has been the main hope for economic development of Afghanistan after years of war and violent conflicts. They also doubted the capability of the government to administer the mining sector and exploitation of the natural resources effectively as 91.4% in the individuals' survey and 94.1% of the focus groups stated that there was no such capability within the government. Hence, 94.3% of the individuals and 94.1% of the focus groups didn't think that mines are used properly in a way it should.

2- Priority areas for development

In the focus group's deliberations on development priorities, road, school and water system came at the top with 20.41%, 18.37% and 12.24% respectively. However, the priorities stated by the individuals are slightly different in prioritization not in essence, where schools ranks first with 20.63% and agricultural machinery comes second with 18.10%, followed by roads with 15.57%.

3- Criteria for allocation of the 5% mining revenues

From the three mechanism of allocation and revenue distribution including, 1) a derivative option, based on the income of their province form mines/their share in the overall revenues of the state from mining of natural resources, 2) using a more indicator based approach (e.g. based on the size of the population), 3) redistribution of the 5% in accordance with the poverty index and the need for development of infrastructures in their province, the population-based choice was almost rejected with 3.8% ratio. Most of the participants opted for the derivative choice with 64.8% and another 28.6% chose the distribution mechanism based on poverty index and the extension of necessity for infrastructure development in their region.

4- Determining percentages for distribution of the 5% mining revenues

Among the criteria for distribution of the mining revenues, population and poverty index had the highest vote to be considered in sharing the 5% allocated revenues. But for determining percentages to mining areas, neighbouring areas and the whole province, the members of focus groups had different opinions though with a narrow margin which was unified after discussions in a defined percentage representing the view of the focus group.

Under the local development model the percentage of share from the 5% of the mining revenue was 45.45% for the communities in the mining areas, 24.09% for the neighbouring areas, and 30.45% of the allocated revenue from the natural resources to the rest of the producing province including its related districts and municipalities. While, the weighted percentage for communities in the mining areas deemed to be directly affected was 45.74%, and a share of 16.67% for the neighbouring areas that are also assumed to be affected by the mining activities. The weighted percentage shows 12.06% of revenues to be allocated for the citizens who are somehow affected. Regarding the producing district and the overall regions of the producing province the focus groups gave a share of 11.77% and 13.76% respectively.

5- Channels of distribution

Both the focus groups and other participants of the study tended to prefer mostly the Citizen Charter as a preferred channel for execution of the allocated portion of the revenue, as it has proved to have the merits of responding to the local needs for development as well as the required efficiency in execution of the project. In addition, people feel more familiar with this mechanism and since they are involved in monitoring and supervision of the implementation process, they think of the Citizen Charter as preferable option for channelling the 5% revenue of mining for provincial development. In the focus groups' discussions, Citizen Charter with 64.71% stood at the top, while NGOs with 23.53% and Private Mining Companies with 11.76% came second and third respectively.

6- Monitoring and supervision

Both in the focus group deliberations and the individual surveys, more localized supervisory mechanism was preferred. At the focus group deliberations, a combined mechanism of supervision that excluded the village council was rejected at the first place. Hence the remaining three options of supervision by the village council, a combined mechanism of supervision by district council and village council, and the third party was discussed. The result shows that within and across the focus groups, village councils are perceived to be the most effective and reliable bodies of supervision with 64.71%, while the combined mechanism of supervision by district and village council receive less support with 23.53% and lastly the supervision by a third party got only 11.76%.

7- Recommendations

In addition to the procedure/regulation attached in Annex 1, the findings of this study suggest the following policy recommendations:

- A regulated and gradual decentralization of the fiscal and budgeting system is required in order to open space and give way to local governments and local initiatives. This would enable the central government to cope more effectively with the potential future challenges that may arise when natural resources revenues increase and become more important in Afghanistan's economy, by sharing the burden with the sub-national administrations.
- A provincial development fund code should be established and activated by the Ministry of Finance by the new fiscal year 2019, so that the allocated 5% of revenues can be collected and disbursed for development projects in the producing provinces.
- The amended draft of the Minerals Law that provides a better and clear regulatory framework for the mining of Mineral resources in Afghanistan and includes recommendations from civil society and transparency advocates should be processed promptly to fill the existing vacuum and regulatory deficiencies.
- In addition, a procedure for allocation and execution of the provincial development fund is required. This procedure must consider the local demands and civil society recommendations and balance it with administrative requirements through a fair formula of distribution and defining of a transparent mechanism of implementation.
- In complete compliance to the EITI standards and requirements, Afghanistan needs to take preventive measures on the possible impact of the mining on its environment and society.

Natural Resources Revenue Sharing in Afghanistan

Introduction

Mining sector plays an important role in the economic development of every country. For Afghanistan, after four decades of war and violent conflicts that brought immense destruction, the mining sector is seen as a vital source of revenue generation to rebuild its economy. Based on the geological surveys, Afghanistan's underground resources are estimated to worth between one to three trillion USD, which is almost completely untapped.[1] The sheer size of the deposits – including copper, gold, iron and cobalt as well as vast amounts of lithium, holds out the possibility that Afghanistan, ravaged by decades of conflict, might become one of the most important and lucrative centers of mining in the world. As the Independent wrote based on some official memos in Pentagon, Afghanistan could become the "Saudi Arabia of lithium." Only the lithium reserves discovered in Ghazni province "shows the potential to compete with Bolivia, which, until now, held half the known world reserves".[2]

Given the dire economic situation in the country and the rich mineral resources, it is truly said that Afghans are poor nation living over rich natural resources.

To change this bitter situation, Afghanistan need to invest in its extractive industry in order to generate sufficient revenue required for post-war reconstruction and poverty reduction. Today, the government is able to collect annually around two billion dollars of revenue that constitutes 33% of the national budget.[3] Most of these revenues come from custom tariffs and indirect taxes. Only around 90 million USD of the total revenue comes from extractive industry and mining sector.[4] Given the shrinking amount of international aid to Afghanistan which is scheduled to end by 2024, Afghanistan has to rely on its rich natural resources in order to cover the state expenses including provision of public services and as well as its defence budget.[5]

However, the importance of underground riches for an economic take-off of Afghanistan has been in focus for both, the Afghan government and the international community, little has been done in this regard. Insecurity and instability perhaps stands at the top as the main challenge. Two major contracts for extraction of Hajigag ore mine and Ainak copper mine have not been implemented

[1] William A. Byrd and Javed Noorani, "Exploitation of Mineral Resources in Afghanistan," United States Institute of Peace (USIP), 182 (Nov. 2014): 3

[2] The Independent, *Afghanistan's resources could make it the richest mining region on earth*, https://www.independent.co.uk/news/world/asia/afghanistans-resources-could-make-it-the-richest-mining-region-on-earth-2000507.html, (last visited 7/10/2018); Also see: Mining Journal (Special edition), Mining Communications Ltd.

[3] See: National Budget 1397, Ministry of Finance

[4] *Mining revenue reaches 7 billion afs in 2017: Nehan*, https://www.pajhwok.com/en/2018/02/10/mining-revenue-reaches-7-billion-afs-2017-nehan, (Last visited 9/10/2018)

[5] Managing Afghanistan's Mineral Wealth: Can Afghanistan's Mineral Wealth Be Used to Rebuild the Economy?, Task Force 2015, at: https://digital.lib.washington.edu/researchworks/bitstream/handle/1773/33278/Task%20Force%20F%202015_FINAL-Montgomery.pdf (Last visited on 2/10/2018)

for years since its conclusion and signature. Both were expected to generate around one billion revenue to the government in royalties and taxes.[6] Transparency is another major issue that surrounds mining sector in Afghanistan. Hundreds of contracts awarded to small domestic companies lack transparency with no environmental and social considerations in the extraction process.

Mining, economic growth and poverty reduction

Mining can positively contribute to poverty reduction and economic growth. Lucrative minerals and natural resources can provide poor countries with large revenue streams that can be used to alleviate poverty and channelled for economic development. However, natural resources are volatile and exhaustible and therefore there is a risk of getting dependent on such revenues in the absence of strong trading economy and industrial production. The experience from many resource rich countries shows that there are several challenges for these countries to rise from poverty to affluence using their revenues from natural resources. If natural resources' revenues are not well managed, this natural fortune may turn into a curse and such countries fall into a so-called 'resource curse trap', a complex phenomenon in which, through several economic and political economy transmission mechanisms, mining revenues can be translated into economic stagnation and may even upset the social order and cause horizontal conflicts.[7]

Exploitation of natural resources is a potential source of conflict between the governments, the people of the producing areas and non-producing areas who see the resources to be the national wealth and expects to benefit from it. Many of horizontal conflicts are caused by discovery and extraction of natural resources such as the one between Aceh and the Indonesian government over the oil and gas reserves.[8] Therefore, addressing the possible grievances that may arise over redistribution of wealth extracted from the natural resources as well as intergovernmental sharing is important and needs a solution when natural resources are discovered and exploited.[9]

The next challenge is channelling of the revenues into the financial system to avoid inflation and rising rates of commodity. In addition, there should be sufficient capacity within the financial and fiscal system and clearly defined objectives for infrastructure development to translate the resources revenue and income into development and growth. Otherwise, given the volatility of such revenues, it may exert adverse effect on the overall economy of a country. Studies of per capita economic growth and natural resource abundance show that an increase of about 10 percentage points in the natural capital share from one country to another is associated with a

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[6] Saleem H. Ali and John F. Shroder, *Afghanistan's Mineral Fortune: Multinational influence and development in a post-war economy*, Institute for Environmental Diplomacy and Security, Research Paper Series: C: 1: 2011 (1)

[7] Scott Pegg, Mining and poverty reduction: Transforming rhetoric into reality, Journal of Cleaner Production 14 (2006) 376-387

[8] Ikrar Nusa Bhakti, Sri Yanuarti and Mochamad Nurhasim, "Military Politics, Ethnicity and Conflict in Indonesia," *CRISE Working Paper*, No. 62, January 2009, at: http://www.crise.ox.ac.uk/pubs/workingpaper62.pdf (Accessed on October 6, 2018); Brown, Graham, Horizontal Inequalities, Ethnic Separatism, and Violent Conflict: The Case of Aceh, Indonesia, UNDP, Occasional Paper, 2005/28, at: file:///C:/Users/WARASY/Desktop/5%25%20Mining/Afghanistan/hdr2005_brown_graham_28.pdf (Last visited at 5/10/2018)

[9] Giorgio Brosio and Raju Jan Singh, Revenue Sharing of Natural Resources in Africa: Reflections from a Review of International Practices, Background Paper, The World Bank, 2014, p 2

decrease in per capita growth by one percentage point per year on average."[10] Moreover, 'Dutch disease'—which refers to absorption of revenue windfalls through higher prices rather than more projects and services— also may cause counterintuitive results.

The most important issue for all resource rich countries to consider is that natural resources revenues are non-renewable, temporary and exhaustible. Therefore, the revenue from mining of natural resources should be considered as consumption of selling of an existing asset rather than additional income. Natural resources, as the gift of nature, provide a temporary stimulus for economic growth and therefore needs to be used properly for development of infrastructures and other key drivers of economic growth that would enable the economy for a takeoff based on an increased level of production and trade. In other words, the revenues from the natural resources should be transformed into capital and capacity in order to avoid stagnation and relapse to poverty.

Another issue that has been a major concern in war-torn countries is the exploitation of natural resources by armed insurgents to finance the insurgency against the government. The insurgents' access to mines and natural resources on the one hand prolong the conflict and present obstacles to peace building efforts[11], and on the other it may cause development of political economy of war intertwined with illicit trade of minerals and precious metals or other types of resources. For instance in Afghanistan, the revenue from gold mines, lapis lazuli, and semi-precious minerals has been one of the major sources for financing the anti-government militia groups.[12] Global Witness has found that the Taliban and other armed groups are earning up to 20 million dollars per year from Afghanistan's lapis mines.[13] Recently, control of the Taliban insurgency over coal mines in areas such as Baghlan province is another example of extraction for financing the war. Therefore, effective governance of natural resources extraction and exploitation and sound management of its revenues is important to make effective use of the 'gift of the nature'.

Approaches to natural resources revenue distribution

Redistribution of the natural resources revenues has been a big challenge for almost all resource rich countries. On the hand, national governments use natural resources revenues to finance development projects and in best cases with due consideration of macro-economic management objectives, it is integrated into the overall fiscal framework to cover budget deficits. On the other hand, to address claims from resource rich regions, governments are to allocate and distribute the revenues from mining to sub-national governments. In addition, they should consider the non-

[10] Gylfason T., Natural resources, Education and Economic Development, European Economic Review 2001, Vol. 45, No. 46, pp 848-9; Also see: De Soysa I. The resource curse: are civil wars driven by rapacity or paucity? In: Berdal M, Malone DM, editors. Greed and Grievance: Economic Agendas in Civil Wars, Boulder: Lynne Rienner Publishers; 2001, pp 113-35; Sachs JD, Warner AM. Natural Resource Abundance and Economic Growth, Harvard Institute for International Development Discussion Paper No. 517a, Cambridge, MA, 1995; Leite C, Weidmann J. Does Mother Nature Corrupt? Natural Resources, Corruption, and Economic Growth, International Monetary Fund Working Paper WP/99/85, Washington, DC.

[11] Phillipe Le Billon and Eric Nicholls, Ending 'Resource Wars': Revenue Sharing, Economic Sanction or Military Intervention?, International Peacekeeping, Vol.14, No.5, November 2007, pp.613–632

[12] See: Katawazai, Ahmad Shah , Afghanistan's Mineral Resources Fueling War and Insurgency, Foreign Policy Journal, May 2018, at: https://www.foreignpolicyjournal.com/2018/05/29/afghanistans-mineral-resources-fueling-war-and-insurgency/ (Last visited at 7/10/2018)

[13] Global Withness, Press Release, *Afghanistan's Famous Lapis Mines Funding the Taliban and Armed Groups*, June 6, 2016, at: https://www.globalwitness.org/en/press-releases/afghanistans-famous-lapis-mines-funding-taliban-and-armed-groups-new-investigation-shows/ (last visited 7/10/2018)

producing areas that also claim a share in the mining revenues as 'national wealth', specially the least developed areas that requires more dedicated planning and sets of action. To overcome such challenges, governments have adopted different approaches to re-distribution of mining revenues that can be categorized generally in two vertical and horizontal systems.

Vertical and horizontal distribution systems

Regarding vertical distribution of natural resource revenues, which refers to distribution from national government to subnational governments, there are three criteria commonly taken into consideration when deciding the share of extractive industry revenues that corresponds to subnational governments: a) matching (administrative) responsibilities to the level of fiscal transfers, b) ensuring a political equilibrium between the centre and the periphery, and c) managing volatile revenues.[14]

Determining revenue distribution mechanism varies first according to the fiscal and budgeting system of every country. Countries with more centralized budget system adopt different methods of revenue sharing than those with more decentralized systems. In centralized and unitary system the revenues from overall sectors throughout the country are collected to the central treasury and then redistributed based on certain criteria or formula. Therefore, any revenue sharing method must go through a complex centralized system, with less room for local planning and initiatives. Many national governments such as in Afghanistan, Algeria, Myanmar and Saudi Arabia collect the vast majority of resource revenues and manage subnational authorities directly and there is a minimal degree of resource revenue sharing.[15] In this system, as an EITI report highlights, the subnational governments have two types of access to resource revenues, 1) local payments, in which legislation assigns specific collection responsibilities to subnational governments, and 2) transfers, in which intergovernmental revenue-sharing arrangements entitle subnational governments to a share of resource-revenue collected by the national/ federal government.[16]

[14] Javier Arellano-Yanguas and Andrés Mejía-Acosta, Extractive Industries, Revenue Allocation and Local Politics, *UNRISD*, Working Paper 2014–4, p 2
[15] Bauer, Andrew and others, Natural Resource Revenue Sharing, Natural Resource Governance Institute (NRGI) and the United Nations Development Programme (UNDP), September 2016, p 31
[16] Javier Aguilar and others, *Implementing EITI at the Subnational Level: Emerging Experiences and Operational Framework*, World Bank Extractive Industries for Development Series No. 23, October 2011

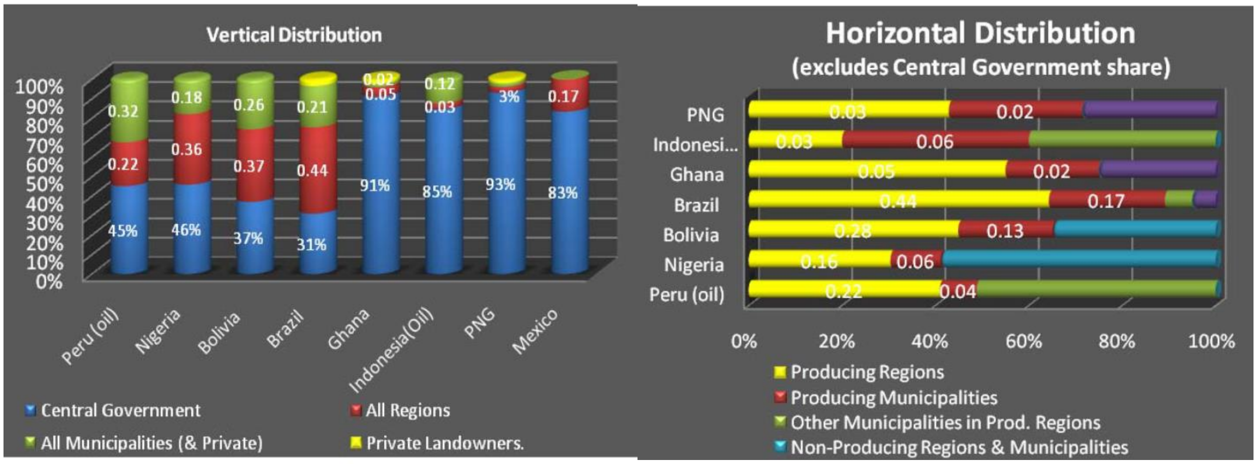

Figure 1 Vertical and horizontal re-distribution of natural resource revenues[17]

In fiscally decentralized systems, such as Bolivia, Indonesia, Peru and the Philippines, most resource revenues are collected by the national government, but there are significant transfers of resource revenues to subnational governments. In the Philippines, for example, 40 percent of all mining revenues collected by the national government have been allocated to the local and subnational governments.[18] Some studies show that political institutions also matter. For example Brosio and Singh in their study of African states found that, following the return of their countries to democracy, the constitutions tend to replace a previous totally centralized system of allocation of natural resource revenues with a decentralized one. This is the case of Iraq and the Democratic Republic of Congo and could possibly also be that of Libya.[19]

Another system is the horizontal distribution that refers to distribution of natural resources revenues across subnational governments. In horizontal system an important discussion on allocation of non-renewable resource revenues across different subnational jurisdictions is whether to redistribute revenues solely to territories that host extractive activities or not, and whether the central government should reallocate revenues through discretionary or institutionalized rules, such as the adoption of a proportionality formula. The existing literature has identified three types of mechanisms: a) direct allocation from the central government; b) formula-based participation, and c) devolution. In practice, countries combine two or more criteria when adopting reallocation formulas.[20]

In addition to the difference in the fiscal system of every country and who is entitled to collect the natural resource revenues, under both horizontal and vertical sharing systems, there is no uniform method for revenue distribution. The regulatory framework in each country dictates different methods of revenue sharing and the percentages that should go to the central government and that of the local governments varies significantly from one country to another.

[17] Adopted from: Matteo Morgandi, Extractive Industries Revenues Distribution at the sub-national Level: The experience in seven resource-rich countries, *Revenue Watch Institute*, New York, Jun 2008
[18] Bauer, Andrew and others, op. cit., pp 31-2
[19] Brosio, Giorgio and Raju Jan Singh, *Revenue Sharing of Natural Resources in Africa: Reflections from a Review of International Practices*, The World Bank, Background Paper, April 2014, p 11
[20] Javier and Andres, op. cit. p 5

Derivation and indicator-based sharing systems

UNDP's report introduces two types of natural resources revenue sharing, 1) derivation of percentage option and 2) indictor based system, each varying according to the government objectives for setting the revenue sharing. Local development, reduction of income inequalities, compensating to producing regions, and conflict prevention are namely the most optimum objectives that may induce and affect a revenue sharing formula. In the derivation based formula, certain percentage is determined for producing/non producing regions, or directly affected and indirectly affected communities and land owners. In some cases equal shares is preferred for all regions in distribution of the revenues from natural resources as a national wealth. However, certain countries consider only the producing regions for allocating a share in the revenues, some other countries such as Nigeria, Bolivia, Mexico and Indonesia includes non-producing regions as well.[21]

In indicator based formula, population, access to education, health services, wage level, poverty index and availability of infrastructure or presence of mining sites are the main indicators for sharing the revenues. If the objective of the national government is prevention of conflict, they may seek a fair formula based on a national consensus.[22]

For example in Uganda taking into account the interest of the individual landowners, local governments and the government, according to the Mining Act of 2003 the central government is entitled to 80 percent of the mining royalties, the local government of the producing areas are entitled to 17 percent and the owner of the land gets 3 percent.[23] In Democratic Republic of Congo, the mining law of 2002 sets the sharing rates for natural resource revenues: 60 per cent to the national government and 40 per cent goes to the provinces, from which 10 per cent is allocated to their local communities. In Ghana, a Mineral Development Fund was established in 1993 which receives 20% of the mining royalty payments. Half of the fund is distributed in the mining areas for projects to mitigate the effects of mining: 25% via the district assemblies and the rest to local communities. In Chad, based on the 1999 Petroleum Revenue Management Law, Eastern Logone, the country's oil-producing region, receives 4.5 percent of the royalties. According to the application decree of the mining code of 2002 of Cameron, royalties on minerals (*an ad valorem tax*) is distributed with 75 percent to central government 25 percent to riparian local councils and communities. But in other areas of resource revenues, the formula is different. For example, according to the 1999 Law of Forestry, royalties on forests are shared 50 percent to central and 50 percent to local governments.[24]

Some countries such as Nigeria specifies a derivation based formula for revenue distribution as stipulated in the Section 162.2 of the Constitution: "The principle of derivation shall be constantly reflected in any approved formula, as being not less that 13 per cent of the revenue accruing to the Federation Account directly from any natural resources."

In Mongolia, according to the new law that came into effect in 2016, preferring a more indicator based formula, 65 percent of mining royalties will go to the central government, 5 percent will continue going to the General Local Development Fund and then redistributed according to the

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[21]Morgandi, op. cit. pp 14-5

[22] Bauer, Andrew and others, op. cit., pp 46-7

[23] See: The Republic of Uganda, *Oil and Gas Revenue Management Policy*, , Ministry of Finance, Planning and Economic Development, February 2012

[24] See: Brosio, and Singh, *op. cit.*, p 13

formula, and 30 percent will go directly to mining *aimags*, of which one third is reallocated to the *soums*. In addition, 50 percent of license fees will go directly to the mining *aimag's* local development fund, of which 50 percent is sent to the *soums*.[25]

Bolivian case shows a more comprehensive natural resource revenue sharing system. The 2005 Hydrocarbon Law, adopted based on the *Law of the National Referendum of July, 18 2004*, established the quantitative levels at which royalties and taxes are imposed and shared. Overall, the law establishes a 50% tax on oil and gas production. This consists of an 11% share of producing region, a 1% compensatory share of national production to the least developed regions of the country (Beni and Pando) and a 6% share of national production to the national treasury. In addition, the law establishes a direct tax on hydrocarbons (IDH –*impuesto directo a las hidrocarburos*) of 32% of which 4% goes to producing regions according to their share of production and 2% to non-producing regions. The remaining allocation is decided by the executive branch in support of the national treasury, indigenous communities, peasant communities, municipalities, public universities, the armed forces, the national police, and others. The law furthermore stipulates that beneficiaries of the IDH will allocate resources for the education and health sector, roads, productive development, and anything which contributes to job creation. Furthermore, the IDH is allocated as follows: 30.5% to municipal governments, 27.3% to the *Renta Dignidad* (a non-contributory old-age pension scheme), 10% to subnational governments, 5.8% to public universities, 1.8% to the *Fondo Nacional de Desarrollo Regional* and 1.4% to the *Fondo Indígena* (Indigenous Development Fund). The remaining 23.2% goes to the national treasury.[26]

However some has argued that since resource wealth distorts incentives, generates rent-seeking behaviour, and undermines democratic accountability; therefore governments in resource-rich countries cannot be trusted to spend their resource revenues wisely and equitably using existing institutions and systems. This has prompted calls for the direct distribution of natural resource income to the population instead of channelling it through the budget. [27]

A common and rather popular approach has been providing the dividend to all citizens. Other approaches are based on the objective of influencing individual behaviours such as by providing dividends only to adults in order to ameliorate incentives to increase fertility, and to discriminate among the population for social or development goals, either by targeting certain segments of the population or by imposing behavioural conditions.[28]

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[25] *Mongolia Revenue Sharing*, Natural Resources Governance Institute, Case Study, Feb. 2016;
Varsha Venugopal, *Natural Resource Revenue Sharing*, Presentation at OECD Conference in Paris, June 21, 2016, at: https://resourcegovernance.org/sites/default/files/nrgi_sharing_Mongolia_revenue-sharing.pdf (Accessed on 8/10/2018)

[26] See: Hydrocarbon Law of Bolivia, Law No. 3058, promulgated on May 17, 2005; Summary adopted from "Resource Revenue Earmarking: Comparative Analysis and Lessons Learned", *Policy Dialogue on Natural Resource-based Development,* OECD 2017, at: https://www.oecd.org/dev/inclusivesocietiesanddevelopment/Session-6-Report-on-Earmarking-Practices.pdf (Last visited 2/10/2018), Also see: Aresti, María Lasa, *Oil and Gas Revenue Sharing in Bolivia*, Natural Resource Governance Institute, April 2016.

[27] See: Sanjeev Gupta and others, Direct Distribution of Resource Revenues: Worth Considering?, IMF, Jun 2014, SDN/14/05

[28] Rodríguez, P.L., J.R. Morales, and F.J. Monaldi, Direct Distribution of Oil Revenues in Venezuela: A Viable Alternative?, *Center for Global Development*, Working Paper 306, Washington: Center for Global Development, 2012; Sandbu, M.E., Natural Wealth Accounts: A Proposal for Alleviating the Natural Resource Curse, *World Development*, Vol. 34, No. 7, 2006, pp. 1153–170.

But since in this method the state is left without adequate resources to carry out its core activities, usually the governments using this system distribute a portion of the revenues to the population in cash or compensate them with some poverty alleviating measures such as subsidizing primary foodstuff. However, this method has been argued by some scholars as having positive impact on escaping the "resource curse", yet it is not common method for resource rich countries.

Determining revenue streams for sharing with sub-national governments

Three resource revenue sharing systems can be generally identified: (1) countries that treat natural resource revenues in the same way as non-resource revenues for distribution purposes; (2) countries that treat natural resource revenues differently from non-resource revenues and distribute them based on derivation; and (3) countries that treat natural resource revenues differently from non-resource revenues and distribute them based on indicators.[29]

The revenues from extractive industry includes, royalties, signature bonuses, profit taxes, property taxes, goods and service taxes, taxes on use of goods, border taxes, dividends from government equity, production entitlements, fines and penalties.[30] Globally, royalties and property taxes are more likely to be shared than profits taxes, goods and service taxes or dividends from government equity. For example, Ghana and China shares only revenues from royalties. The Oil and Gas Revenue Management Policy of Uganda also set its goals as defining a mechanism for the sharing of royalty revenues with the local governments within the oil producing region.[31] The main advantage of royalties, and the reason for their popularity, is early timing of payments – as soon as the production starts – and simplicity of administration.[32]

Community Development Agreements

Another mechanism, in addition to revenue sharing system, for mitigation of negative impacts of mining on the local community is the so-called Community Development Agreements (CDA), in which the winner company for extraction of a mining site enters an agreement with the local community on a sort of development or compensatory investment.

Community Development Agreements (CDAs) have the potential to facilitate the delivery of tangible benefits from large-scale investment projects, such as mines or forestry concessions, to affected persons and communities. To be effective, however, CDAs must be adapted to the local context, meaning that no single model agreement or process will be appropriate in every situation.[33] CDAs are becoming more and more common, and stand as an important opportunity for ensuring the self- determined development of local communities.

Natural resources revenue sharing in Afghanistan

Regulatory Framework

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[29] Bauer and others, op. cit. p 45
[30] Ibid. pp 51-2
[31] The Republic of Uganda, op. cit
[32] Brosio and Singh, op. cit. p 23
[33] Jennifer Loutit and others, Emerging Practices in Community Development Agreements, Afe Babalola University, Journal of Sustainable Development, Law & Policy, Vol. 7, No. 1, 2016, pp 64-96

According to the Article 9 of the Constitution, natural resources are the property of the state and shall be managed through related regulations. There are two separate laws on natural resources, the Hydrocarbon Law (2014) and the Minerals Law. The Minerals Law enacted in 2014 together with the Mining Regulations (2009), provide the main regulatory framework for mining sector in Afghanistan. As result of civil society advocacy, certain measures were included in the law that highlighted social and environmental protection and some articles were added for community development in order to minimize the mining impact on local communities and alleviate possible grievances over mining issues.

Mining Regulations enacted on February 14, 2010, provides more detailed regulatory framework on mining sector in Afghanistan and regulates contract award procedures, monitoring and evaluation processes that includes environmental and social support mechanisms as well. It also clarifies issues of royalty rates, fees, charges, surface rent and taxes.[34]

Although, there are still legal and regulatory vacuums and Afghanistan is yet to meet all requirements for transparency and accountability in the mining sector, in February 2010, Afghanistan was recognized as an EITI-compliant country after it met all the requirements in the EITI standard.[35] Since then, EITI has been observing closely the mining sector of Afghanistan with a dedicated effort for improvement of licensing and concession system as well as reforms in procedures and regulatory system of the country.

Community Development Agreements (CDAs) in the Mining Law

Among others, based on international practices, the Community Development Agreement (CDA) was also considered in small/medium size contracts.[36] Article 65 of the Minerals Law, defining the obligations of small-scale mining license holders, *inter alia*, specifies implementation of Community Development Agreements in accordance with relevant laws. In addition, Article 66, sets "signed Community Development Agreement(s) between the holder community representatives, and relevant government authorities and other relevant parties," as a condition for commencing activities in the mining site. However, few CDAs has been implemented in the absence of codified procedure that would define how and to what extend the license holders should undertake community development projects. This obligation is maintained in the Article 35 of the new draft law as well.

The Law further emphasize on the community development obligation in Article 92, stating that:

1) Community development is part of Mining Operations that shall be undertaken with a view to the joint interests of the License Holder and the local community provided such development is not against the provisions of the law.
2) Community development stipulated in Paragraph (1) of this Article, may be carried out for the purpose of assisting the local communities affected by Mineral Activities in order to promote sustainable local economic development, the general welfare and quality of life of the local communities, recognizing and respecting the rights, customs and traditions of local communities.
3) The Holder of an Exploitation License or a Small-Scale Mining License shall, in consultation with local communities and affected persons, prepare and implement a Community Development

[34] See: Ministry of Mines, *Mining Regulations*, 2010, at: http://www.mom.gov.af/Content/files/Mining_Regulations.pdf (Accessed on 9/10/2018)

[35] See: Renaud, Karine M., The Mineral Industry of Afghanistan, in: U.S. Geological Survey (2016), Area Reports - International - Asia And The Pacific: U.S. Geological Survey Minerals Yearbook 2013, V III, P 2.2

[36] See also: Ministry of Mines and Petroleum, *National Mining Policy*, at: http://mom.gov.af/Content/files/Policies/English/English_National_Mining_Policy.pdf (Accessed on 9/10/2018)

Agreement that shall include a detailed Environmental and Social Impact Assessment or Screening Report and an Environmental and Social Management Plan for the different phases of the Mining operations.

4) Funding and other affairs related to Community Development Agreement shall be set forth in the Regulations.
5) The Environmental, social, and community development reports and studies that are submitted by the License Holder are to be considered non-confidential.

But in the absence of a clearly defined procedure and regulatory framework, most of the CDAs have not been implemented. When there is no regulatory guarantees for follow up and to set the norms on how much the license holders should invest in CDAs, the local community is left at the mercy of extractors. USIP in a report indicates that "some of the mine operators in their proposals have committed to providing tens of thousands of dollars for local development but have not delivered on those commitments. For example, Hewad Brothers committed to spend $20,000 for the development of local communities but so far has not spent anything for this purpose. AKNR committed to spend $50,000 but has spent the money on construction of housing for its security personnel instead."[37]

In the new draft law on mining, some additional articles are added that states CDAs as part of the essential conditions of the contract and thus authorises Ministry of Mining to follow the implementation of the CDAs and penalize those license holders that do not live up to their commitments to the society for provision of the services that they pledged before inception of their work on the mining site. However, in the amended version of law that is not yet enacted, certain measures are added to make sure that first the CDAs are according to the existing laws and regulations, and second that they are implemented. In article 62, the law foresees appointment of special inspector to monitor the license holder's activities and to make sure that they abide by the law and implement their social commitments. Article 65 goes further and states that the Ministry (MoM) is responsible for the following issues:

1) To make sure that the proposed plan is according to the enacted regulations and procedures
2) To assess if the proposed plans meet the requirements set in the paragraph on of this article (taking part in infrastructure development, provision or taking part in short term trainings and education, contributing to development of local business, supporting local initiatives)
3) To make sure that the proposed development plan meets the obligations of the license holder and is adequate
4) The Ministry may endorse the proposed development plan, or request its modification or set the rules for endorsement of proposed community development plans of the license holders.

Allocation of 5% of the mining revenues to provincial development

In addition, Article 84 of the 2014 Minerals Law provides for the allocation of a portion of state revenue to provincial development, stating that "the Ministry of Finance shall, in addition to its annual national budget allocation, allocate 5 % of the overall revenue from a mine or mines, in a special code [budget code] or fund, for the purpose of economic, social and environmental development of the province or provinces where the mines are located."

Considering the deficiencies of the Mineral Law, it was amended and currently the amended draft is under process for final review and promulgation. In the amended draft, while it maintains

[37] Javed Noorani, *Afghanistan's Emerging Mining Oligarchy*, USIP Special Report 358, January 2015, p 8

allocation of 5% of the overall revenue of the large-scale exploitations, in Article 50, it stipulates an allocation of 8% of the overall revenue of the small-scale extractions for provincial development. Furthermore, the new draft law also mandates the Ministry of Finance to establish a provincial development fund to collect the 5% revenue from the mining sector. The new draft specifies that such fund shall be distributed to provinces where mining activities and production are undertaken. It also sets the condition for spending these funds and states that Ministry of Finance should make sure that these funds are spent on development initiatives in producing provinces based on national programs and economic developments plans, which shall be developed by the liable ministry.[38]

The current Mineral Law came into effect in 1393 (2014), but its provisions have not yet been implemented and according to EITI Reconciliation Report no flows relating specifically to the extractive sector have been identified as paid to any sub national government bodies.[39]

Mining revenue streams

There are several revenue streams from natural resources extraction in Afghanistan. But in the Minerals Law (2014) four main streams including fees, surface rent, taxes payment and royalties are included.

Fees, as defined in the Article 80 are the type, amount and other matters relevant to non-recoverable fees for the issuance of licenses, bidding documents, authorization, other requirements shall be set forth in the regulations. While according to article 81, license and authorization holders, contractors, sub-contractors, advisors, experts and their employees are obliged to pay all applicable taxes, customs duties, and other taxes in accordance with the provisions of the applicable laws. The Article 82 of the law tasks the Ministry of Mines and Petroleum to prescribe the rates of annual surface rent payable on per square kilometre of state owned land that may vary by license type as prescribed. In Article 83, the law states that a holder of a license or authorization is liable to pay a royalty on minerals and semi-processed or processed minerals as may be prescribed in the Law and relevant regulations.

Fixed royalty rates were not included in the Minerals Law, but were included in the Mineral Regulations of 2009, which is still applicable. As a result, for instance in 2013, most of the royalty rates were agreed to by bidders. West Land Trading L.L.C. of the UAE, for example agreed to pay a 26% royalty, while Afghan Krystal Natural Resources Co. agreed to pay a 20% royalty. But in the new draft of Minerals Law, the royalties are also included. Article 51, stipulates that the royalty shall be calculated based on the related regulations, and if it was not defined in the current regulations then based on the value of productive royalty it shall be calculated 7.5% for primary products, 5% for secondary products, and 2.5% for tertiary products, given that an inspection of the value will be carried out.[40]

In addition, according to EITI Scoping Report, Ministry of Finance also imposes income tax, business receipts tax, withholding tax on salaries, rents, contracts and other items.[41] But which revenue streams to be included in the 5% provincial allocation, Article 84 of the Law stipulates five percent of the overall revenue, which leaves ambiguities on whether the revenues from

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[38] See: Amended draft of Minerals Law, Islamic Republic of Afghanistan, 30 August 2018 (8 Sunbula 1397)

[39] *Inception Report and 5th EITI Reconciliation Report of Afghanistan Transparency Initiative (AEITI)*, 17 January 2017, http://aeiti.af/en/documents/category/reconciliation-reports (Last visited at 10/10/2018)

[40] See: Renaud, op.cit. P 2.2

[41] AEITI, op. cit. p 7

Ministry of Finance such as BRTs on licence holders should be included or not. However, based on the previous articles of the law that defines four types of revenues, and considering the practical experience, only revenues from royalty, fees, surface rent and taxes can be included in the allocation for provincial development fund.

Survey on social preferences on distribution of 5% of natural resource revenues

To overcome the ambiguities and challenges on implementation of Article 84 of the Law, a survey was conducted in six producing provinces. The survey included two phases, first, a questionnaire was distributed among individuals (dwellers of the villages in the mining sites and surrounding areas), and second, the questions with additional topics on revenue sharing systems was discussed with local focus groups. The first phase of the survey included questions that explained the general perceptions as well as expectations of the communities in the producing regions. And the second part, put into discussion the most challenging issue of how the 5% overall revenues of natural resources should be distributed and utilized for the purpose of local and provincial development.

The UNDP developed typology of revenue distribution systems was adopted in this research for further discussion within focus groups. The UNDP typology provides a clear division of objectives, sharing systems and indicators and includes both derivative and indicator-based systems. To ensure the validity of data, first, surveyors were handpicked from amongst advocates of mining transparency and civic activists who were familiar with the overall complexities of issue. Second, they were trained initially to enhance their awareness on the topic and make them familiar with the systems of revenue sharing according to the UNDP developed typology and existing practices. After sufficient elaboration and deliberation followed with practical rehearsal, they were dispatched to the six producing provinces including Bamyan, Maidan Wardak, Herat, Baghlan, Samangan and Logar to conduct the survey in both individual and focus group levels. They were thought to put into discussion the three possible types of revenue sharing systems after a brief but clear explanation of the three models to make sure that – group members were familiarized with the topic and enabled for discussion and decision making.

As a result, they conducted the survey with 105 individuals in the mentioned provinces that included a wide range of diversity in terms of occupation, education, age groups, and gender. In addition, they were tasked to discuss with focus groups the distribution mechanisms and percentages of shares to different parts of the related producing province. Initially, the surveyors were expected to conduct the discussion with at least one focus group in the mining areas, at the end, 17 focus groups participated in the study to share their views in a group deliberative decision making process.

General perceptions and expectations

The first part of the questionnaire contains a set of questions on general perceptions and expectations of the local communities and their individual members. All of them stated that there are identified or exploited natural resources in their area with large scale contracts being awarded to foreign or domestic licence holders. In both, the focus groups discussions and individual surveys, the participants of this study were optimistic on the positive impact of the mines once they are taped but stated that they haven’t benefited for the time being and nor they were consulted on the issues surrounding the extraction process given its negative impacts on the local livelihoods and environment. Only 10% said that they were consulted before the inception of extraction or exploitation process (for details see Annex B).

The questionnaire included one section on the existence of Community Development Agreements for small scale mining contracts. 95% of the individual participants and 94% of the focus groups stated that in the absence of any consultation with local communities, there was no written commitment by the licence holders for community development as required by the Law and 92.4% of the individuals and 94.1% of the focus groups said that no project has been implemented as part of CDAs in the mining areas.

A major concern for the residents of the mining sites in Afghanistan is security and the possibility that the extraction process may exacerbate the situation by precipitating local conflicts as result of competing claims over mining sites and the potential benefits from it, or intervention of local warlords and strongmen. Given the long-developed political economy of war and growth of illicit economy within the economic spectrum of the country, it seems possible that natural resources exploitation may attract the warlords and terrorist groups to take advantage of the situation for financing their militias. As expected, most of the participants (65.7% of individuals and 94.1% of focus groups stated that they have been witness to deterioration of security situation that is obviously associated with mining activities. Furthermore, 30.5% of the individuals and 23.5% of the focus groups agreed that the extraction process has caused local conflicts, which is unexpectedly low.

Perceptions on governance of the mining sector

In order to understand the perceptions of the local communities and sample population on governance of the mining sector, certain questions were included. As highlighted by the advocates and civil society activists, corruption and interference of the local strongmen were among the main hindrance to effective exploitation and sound management of the natural resources. Given the concerns over the potentials for horizontal conflicts emanating from geographical/natural distribution of resources across the country, it was important to understand if the people thinks the natural resources are used properly as a national wealth as defined in the Constitution. In both surveys of the focus groups and individual residents of the mining areas, the absolute majority believed that there was corruption in the mining sector with 95.2% in the individual survey and 82.4% in the focus groups survey. Moreover, 81% of the participants in the individual survey and 76.5% of the focus groups expressed concerns over lack of political will for sound management of the mining sector which has been the main hope for economic development of Afghanistan after years of war and violent conflicts. They also doubted the capability of the government to administer the mining sector and exploitation of the natural resources effectively as 91.4% in the individuals' survey and 94.1% of the focus groups stated that there was no such capability within the government. Hence, 94.3% of the individuals and 94.1% of the focus groups didn't think that mines are used properly in a way it should. At the end they were asked if they were willing to volunteer for safe guarding the mining sites, 66.7% of the individuals and 52.9% of the focus groups expressed their willingness but others thought that local involvement in the safeguarding of the mining sites may precipitate or ignite local conflicts in one way or another. Therefore, they preferred the security forces to do the task.

Q & A	Individuals	Focus Groups
Corruptions in the mining sector	Percentage	Percentage
No	4.8	17.6
Yes	95.2	82.4
Political will within the government for sound management of mining sector?		
No	81.0	76.5
Yes	19.0	23.5
Capability of the government for sound management of the mining sector		
No	91.4	94.1
Yes	8.6	5.9
Mines are used properly as a national wealth		
No	94.3	94.1
Yes	5.7	5.9
Voluteer for safeguarding of the mining sites		
No	33.3	47.1
Yes	66.7	52.9

Priority areas for development

In the focus group's deliberations on development priorities, road, school and water system came at the top with 20.41%, 18.37% and 12.24% respectively. However, the priorities stated by the individuals are slightly different in prioritization not in essence, where schools ranks first with 20.63% and agricultural machinery comes second with 18.10%, followed by roads with 15.57%. For rural economic development, road is the most important factor that connects them to the cities and larger national market. This enables rural areas to export their surplus to the cities and provide them with more connectivity. Given the low literacy rate in the country, the dire need for more schools is also depicted in the survey as most of the focus groups have emphasized on building new schools as part of the development schemes under the provincial development fund. In addition, since the rural economy is depending on agriculture, the drought in recent years prompts the need for building new water canals that would enable them to sustain their agrarian livelihood.

At the second tier comes provision of drinking water (10.20%) and small electricity projects (10.20%). Both are important for sustaining life in the rural areas. Access to clean drinking water is low in the villages which cause spread of various types of diseases. As the use of electrical devices increase in the rural areas such as mobile phones, it necessitates availability of electricity that can only be provided through implementation of small electricity projects by harnessing the existing hydropower whether wind or flowing rivers in the valleys. Another set of priorities are bridge and madrasa both with 8.16 percent in the focus groups deliberations. While the survey of the individuals show a similar percentage for bridges (6.06%) but much lower percentage for madrasa (2.86%). Another sharp contrast that existed between the priority choices of the focus groups and the individuals was on water systems and agricultural machinery. Focus groups give more priority to water systems, while the individuals have cited the agricultural machinery as more important to them.

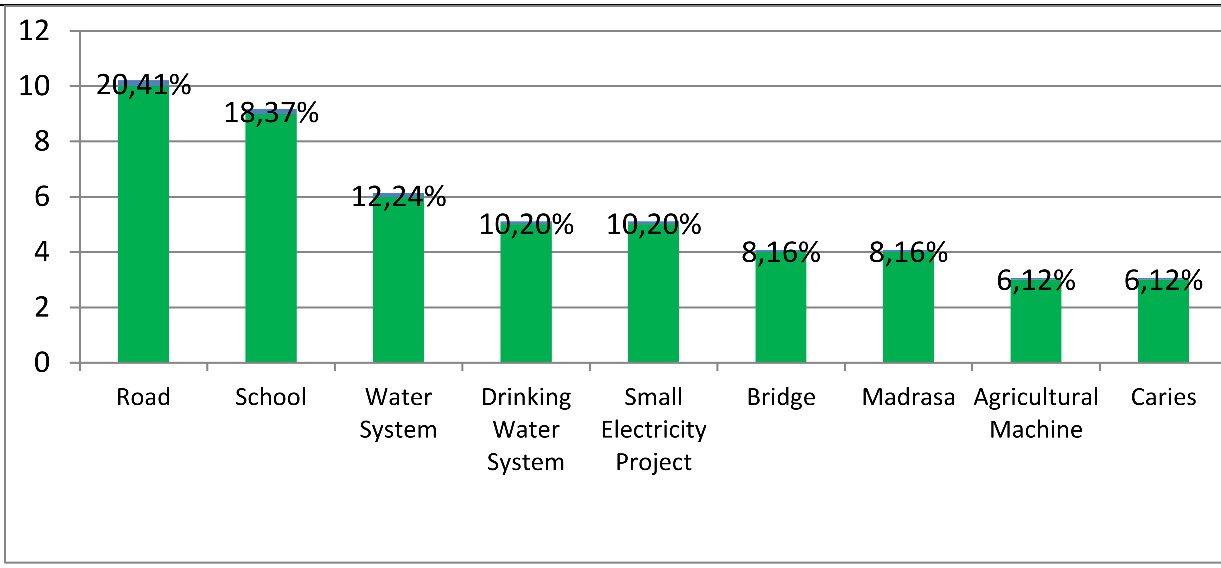


Figure 2 Priorities set by focus groups

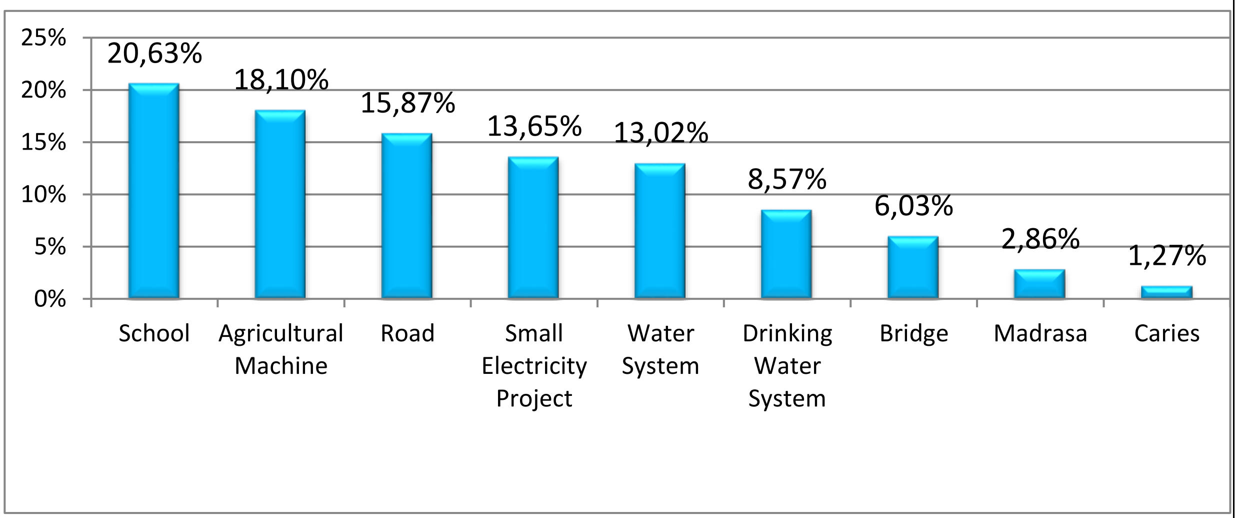


Figure 3 Priorities stated by individuals

Criteria for allocation of the 5% mining revenues

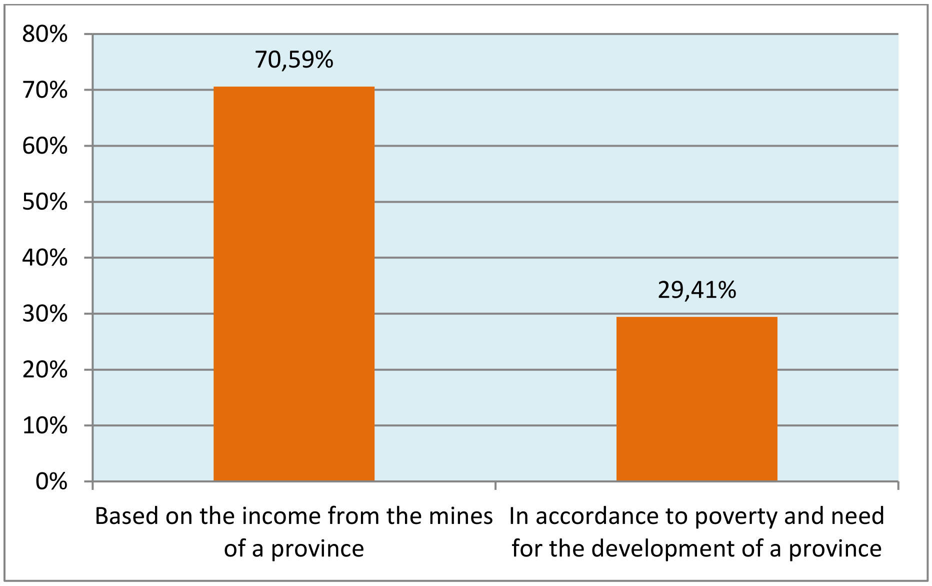
At the individual level, a much simpler set of questions were asked on the criteria for distribution of the 5% of the natural resources revenues to producing and non-producing regions. First, they were asked if they wanted to get a total share of 5% of the revenues from mining industry of the country. The reaction was quite positive as the participants rejected the option and only 2.9% of the participants of the survey opted for that.

Criteria of Distribution

Criteria	Frequency	Percentage
5 % of the national income from the mining sector	3	2.9
Based on the income from the mines of a province	68	64.8
Based on the population of a province	4	3.8
In accordance to poverty index and needs for development of a province	30	28.6
Total	105	100.0

In addition, they were another three reasonable choices that included, 1) a derivative option, based on the income of their province form mines/their share in the overall revenues of the state from mining of natural resources, 2) using a more indicator based approach (e.g. based on the size of the population), 3) redistribution of the 5% in accordance with the poverty index and the need for development of infrastructures in their province. The population-based choice was almost rejected with 3.8% ratio. Most of the participants opted for the derivative choice with 64.8% and another 28.6% chose the distribution mechanism based on poverty index and the extension of necessity for infrastructure development in their region.

This question was asked for a comparison purpose from the focus groups as well. They also endorsed the options with highest score in the individual level. While the population size didn't receive any support, the focus groups opted for derivative approach with 70.59%, and second to that was the distribution method based on the poverty index and the needs for development in the producing region with 29.41%.



Determining percentages for distribution of the 5% mining revenues

In the second phase, distribution of the 5% of the overall mining revenues for provincial development was put into discussion with focus groups. The typology developed by the UNDP and Natural Resource Governance Institute (NRGI)[42] was adopted for discussion, which included three mechanisms of local development and compensatory distribution systems as well as a model for conflict prevention. The model with the sole purpose of conflict prevention was taken out of the discussion almost unanimously in all focus groups. Therefore, the deliberative discussions focused over the two remaining models of local development and compensatory mechanisms.

The focus groups were to define a formula for distribution of the 5% revenue of the natural resources in systems defined by their objectives as local development and compensation. The purpose was to take into account the possibility of shifting from one system to another. Therefore the focus groups discussed both of the distribution systems. Following a careful deliberation on the possible claims over the revenues of the natural resources and the potential for conflicts within the local community as well as within the producing province, the groups discussed the indicator-based system of revenue distribution with the objective local development. After concluding discussions over the first model, they resumed discussion over the second model. The main issue in both systems were to distribute the allocated 5% revenue of natural resources among the residents of the mining area, neighbouring areas, producing district as well as the overall region of the producing province. Before deliberation, the overwhelming tendency was to exclude areas other than communities located at the mining site or those affected directly by the mining activities. But after deliberation over the possible claims and conflicts over the allocated portion of the mining revenues, they tended to show more flexibility in inclusion of other areas and communities within the producing province.

Among the criteria for distribution of the mining revenues, population and poverty index had the highest vote to be considered in sharing the 5% allocated revenues. But for determining percentages to mining areas, neighbouring areas and the whole province, the members of focus groups had different opinions though with a narrow margin which was unified after discussions in a defined percentage representing the view of the focus group. Such difference also existed across focus groups, and in order to present a representing average of the percentages determined by various focus groups, the following formula was applied for statistical calculation.

$\mathrm{R1} = \text{Percentage for the area of Mines}$

$\mathrm{R2} = \text{Percentage for the neighborhood area}$

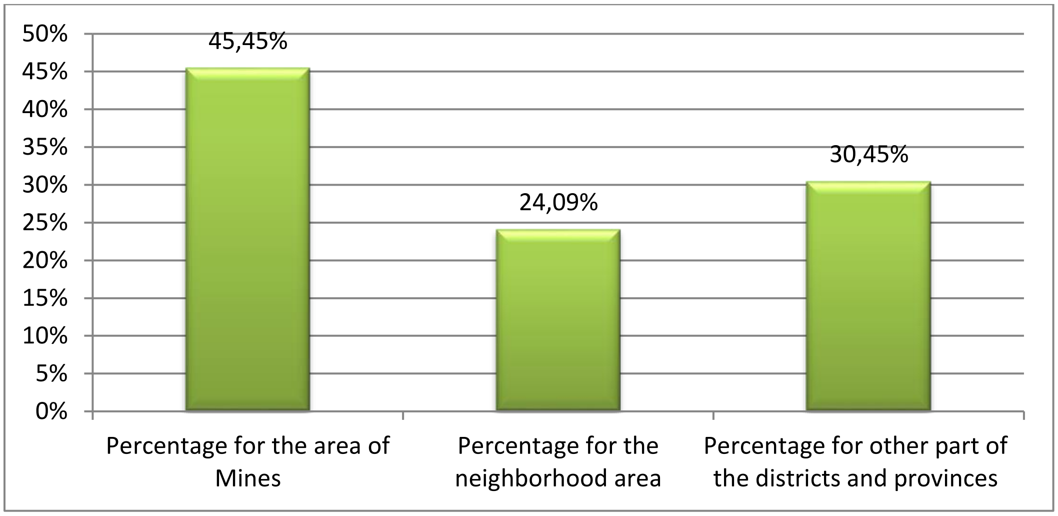
$\mathrm{R3} = \text{Percentage for the other part of district and provinces}$

On the other hand, participants in each of the focus groups had the choice to select any percentage ($P \in [0\%; 100\%]$) for the R1, R2, and R3. In order to calculate the dedicated percentage for each of the options, both of the selected percentages $(\mathrm{p}\,)$ and the frequency of the percentages $(\mathrm{f}\,)$ was considered in the calculation with D representing this weighted percentage;

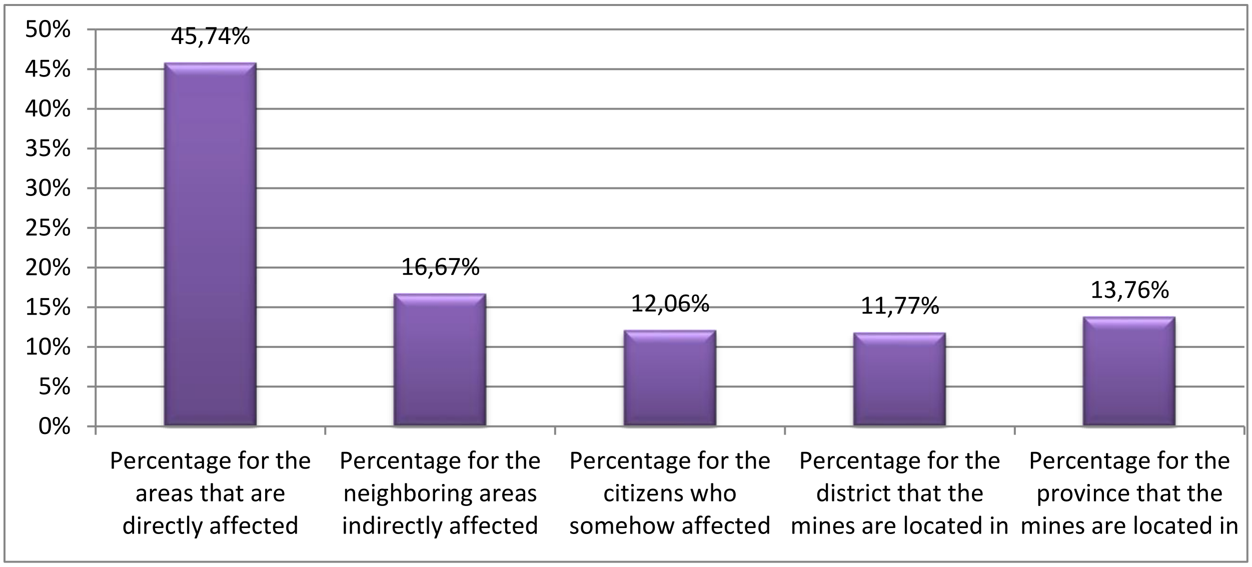
$\mathrm{D} = (\mathrm{p}\,)\ \mathrm{x}\ (\mathrm{f}\,)$

[42] See: Bauer and others, op. cit. p 47

Considering the above model for calculation of the 5% allocated percentage of the mining revenues the result for the local development model was 45.45% for the communities in the mining areas, 24.09% for the neighbouring areas, and 30.45% of the allocated revenue from the natural resources to the rest of the producing province including its related districts and municipalities.



For the compensatory system of revenue distribution, same formula was applied for the purpose of statistical analysis to achieve a representative average from the percentages of shares given by focus groups. The indicators set for this model was 1) existence of natural resources and allocation based on derivation, 2) level of environmental impact and damage index such as mined land area, inverse of rehabilitated land area, water use by mining, presence of waste storage facilities, affected river catchment area, 3) Measure of loss of livelihoods. Five categories was proposed for distribution of the allocated revenues to be considered, 1) Directly affected regions, 2) indirectly affected regions, 3) affected communities /citizens / landowners, 4) producing district, and 5) producing province. The weighted percentage for each of the categories indicates more emphases on the mining area similar to the previous model.



The weighted percentage for communities in the mining areas deemed to be directly affected was 45.74%, and a share of 16.67% for the neighbouring areas that are also assumed to be affected by the mining activities. The weighted percentage shows 12.06% of revenues to be allocated for the citizens who are somehow affected. Regarding the producing district and the overall regions of the producing province the focus groups gave a share of 11.77% and 13.76% respectively.

Distribution channels

The main challenge for distribution of the 5% revenue of the natural resources in Afghanistan is the fiscal and budgeting systems. Given the completely centralized fiscal system, sub-national governments don't have the authority to decide for their own budgets. AREU in their study of local governance in Afghanistan found that, "development planning and budgeting at the provincial level is dysfunctional largely as a result of the highly centralised nature of these processes, which leaves provincial administrations unable to make development decisions in line with local needs".[43] After reforms in the budget system and the introduction of the result-based planning and budgeting, sub-national governments were able to propose for their needs in the local level, but since the projects are proposed and implemented by the secondary administrative bodies, local government don't have much voice in the budgeting process or its implementation. Even their financial authority has been limited by presidential decrees. Governors therefore, play the coordinating role among for execution of the plans and projects of the line ministries. But even coordination among provincial line ministries is difficult to achieve since budgetary flows are controlled by centralised line ministries in the Capital and local planning bodies are essentially symbolic that renders them almost dysfunctional.[44] In the absence of any will for decentralization

[43] Dr Douglas Saltmarshe and Abhilash Medhi, Local Governance in Afghanistan: A View from the Ground, Afghanistan Research and Evaluation Unit Synthesis Paper, June 2011, p 2

[44] Ibid, p 3

of the governance and fiscal and financial systems, any scheme for distribution of the 5% revenue of the mining for provincial developments has to be channelled through liable ministries.

Another option, for channelling the 5% provincial development fund is the so-called National Solidarity Program (NSP)[45], renamed as the Citizen Charter Priority Program (CCPP)[46], which is proved to be effective and heralded as the most efficient mechanism for local development. This program is implemented and executed by the Ministry of Rural Rehabilitation and Development (MRRD). Under this program, local needs are proposed by the local governor, village councils and provincial councils. Village councils are also involved in the implementation and monitoring of the projects.

A third possible option is channelling the fund through domestic NGOs. NGOs have significantly contributed to the achievements that have taken place since 2002 in provision of public health, education, rural development, and construction. In the past, INGOs have been able to operate in areas not controlled by the government to deliver services in areas of health and education and provide support for the National Solidarity Program. As AREU indicated, "they have combined technical assistance and a wide range of capacity-building activities with the effective use of indigenous knowledge."[47] This makes the non-governmental organizations more effective and cost-efficient in service delivery.

The fourth but least preferable option, is to channel the fund for provincial and local development through the mining companies who undertake mining activities as a result of the lawful concession. In addition to CDAs, they can implement the development projects under the supervision of the local authorities. But the main challenge in this option is the conflict of interest in areas that extractor company is responsible for (e.g. environmental and social impact).

All these options were discussed with focus groups with sufficient deliberations on the advantages and disadvantages of each option. It was also the main question in the survey for individuals participated in the study. At the individual level, the majority (63.8%) selected the national program of Citizens' Charter as the most reliable and effective channel for spending the provincial development fund. While other options, the NGOs, mining companies, and through national budget, had 18.1%, 12.4%, and 5.7% respectively.

Channel of distribution

Distribution channel	Frequency	Percentage
By NGOs	19	18.1

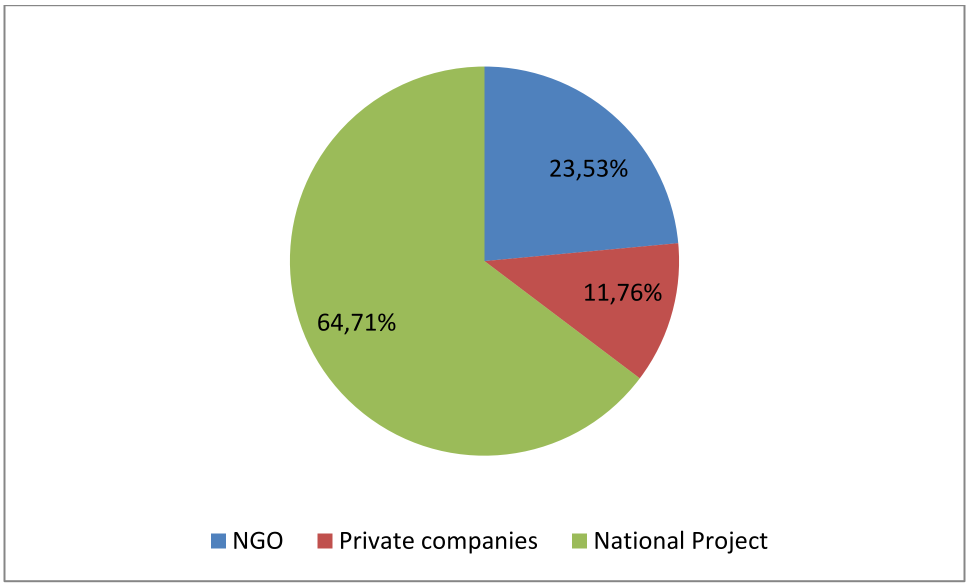
[45] National Solidarity Program is one the most successful community-based approach to delivery of projects in Afghanistan that was initiated in 2003 and continued to operate until it was renamed to Citizen Charter. See: Andrew Beath and others, The National Solidarity Program: Assessing the Effects of Community-Driven Development in Afghanistan, World Bank Group, Policy Research Working Paper No. 7415, September 2015

[46] The Citizens' Charter National Priority Program (CCPP) replaced the NSP and was launched officially President Mohammad Ashraf Ghani in September 2016. Its goal was to improve the relationship between the government and its people and reduce poverty by providing basic services. For more information see webpage of Ministry of Rural Rehabilitation and Development at: mrrd.gov.af

[47] Douglas and Abhilash, op. cit. p 32

By private mining companies	13	12.4
Through National Budget (provincial allocations)	6	5.7
Through Citizen Charter with consultation of the local councils	67	63.8
Total	105	100.0

Focus groups also tended to prefer mostly the Citizen Charter, as it has proved to have the merits of responding to the local needs for development as well as the required efficiency in execution of the project. In addition, people feel more familiar with this mechanism and since they are involved in monitoring and supervision of the implementation process, they think of the Citizen Charter as preferable option for channelling the 5% revenue of mining for provincial development. In the focus groups' discussions, Citizen Charter with 64.71% stood at the top, while NGOs with 23.53% and Private Mining Companies with 11.76% came second and third respectively.



Monitoring and supervision

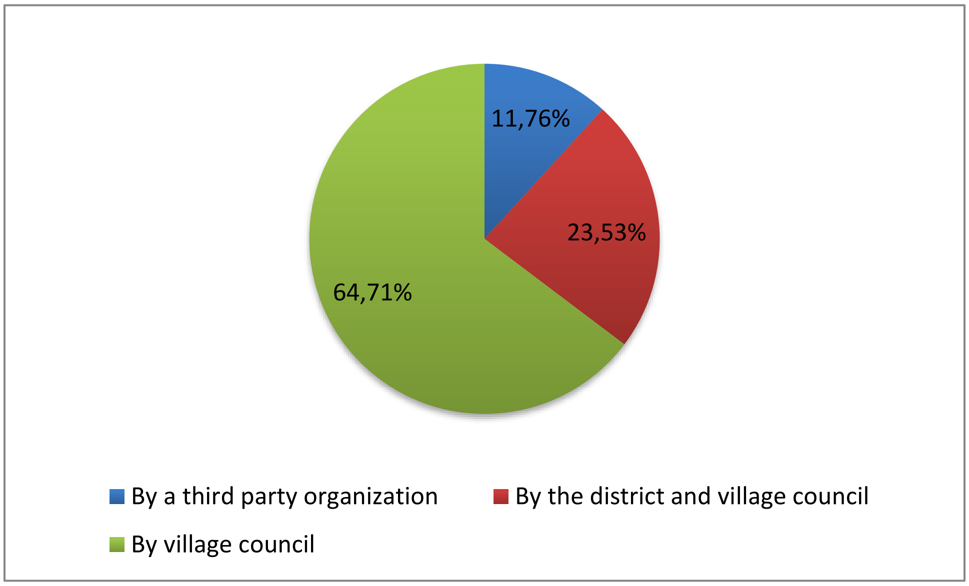
For the supervision and monitoring of the expenditure of the 5% allocated fund for provincial development four options were given including, 1) third party (an independent organization, 2) district and village councils, 3) provincial and district councils, and 4) village councils. There was a sharp contract between the outcome of the individuals' survey and the focus groups decisions. For the focus groups, the village councils were thought to be the more manageable and effective body of monitoring and supervision. But for the individuals, a third party or an independent organization (34.3%) seemed more preferable for the supervision of the expenditure of provincial development fund, while village council was the second better option for supervision (30.5 %). A combined mechanism of supervision including the district council and the village council as well as the provincial council and the district council received least score.

Supervision of 5% expense

Supervision Mechanism	Frequency	Percentage

By a third party (independent organization)	36	34.3
By the district and village council	23	21.9
By the provincial and district council	14	13.3
By village council	32	30.5
Total	105	100.0

At the focus group deliberations, a combined mechanism of supervision that excluded the village council was rejected at the first place. Hence the remaining three options of supervision by the village council, a combined mechanism of supervision by district council and village council, and the third party was discussed. The result shows that within and across the focus groups, village councils are perceived to be the most effective and reliable bodies of supervision with 64.71%, while the combined mechanism of supervision by district and village council receive less support with 23.53% and lastly the supervision by a third party got only 11.76%.



Conclusion and recommendations

Natural resources are the main hope for economic development and growth in Afghanistan. But currently, Afghanistan's revenue from mining sector is too low to be counted as an important economic factor. Therefore, as the country is home to the largest untapped mineral resources, more investment is required in the mining sector for discovery, exploration and exploitation. This would require both time and money but more importantly sound management and effective administration and planning that would also help the country to escape the resource curse and Dutch Disease phenomena and to cope with challenges of boom-bust cycle. Strong political will and strengthening institutional capacity and capability is vital for turning resources into capital and a positive factor in the country's economy. While regulatory frameworks have been improved with the enactment of the Minerals Law and related regulations, still there are legal and regulatory gaps to be identified. In addition, certain initiatives indicated and stipulated in the Law have not been implemented yet which is important for local development and earning social trust.

Two development schemes stipulated in the Mineral Law (2014) including CDAs and allocation of 5% of the overall natural resource revenues for provincial development has not been implemented. The main obstacles that hinders implementation of Article 84 of the Mineral Law, first and foremost lies in the centralized fiscal system that does not permit decentralized and more local initiatives for development. In addition, there is no regulatory framework for implementation of the mentioned initiatives to define the technicalities and provide a blueprint for these schemes indicated in the Law. However, the CDAs have been part of the formal procedures for concessions to small and medium scale extractions. But as the survey in this study showed, the licence holders (winners of bidding for the concession) either have not consulted properly with the local community or lived up to their commitments for development projects.

Regarding the 5% of the natural resource revenues for provincial development, not even a single step has been taken to date. While in some cases mining activities have not been started after the concession due to political reasons or other challenges such as security issues that serves as a reason for the delay in its realization as no need in the ground has arose. There are cases, where mining activities has already started and annually around 90 million USD is collected from the mining sector to the national budget. But the 5% share for producing provinces has not been implemented, which is expected to have positive impact on the livelihoods of the local communities if realized.

Based on the survey results, there is a dire need in the rural areas for infrastructure development including schools, irrigation systems and provision of more connectivity and health services in order to cope with the increasing level of poverty. The participants preferred a more community-based approach in implementation of the Article 84 of the law for the expenditure of the 5% of the overall revenues for provincial development. The Citizens' Charter Priority Program (CCPP) was cited as more trustable and effective channel for materialization of this long awaited initiative. Moreover, the participants of this study opted for community based supervision on utilization of the fund. They stated that village councils are more apt for supervision and monitoring of the projects implementation. The participants of this study expressed their doubt on the willingness of the government as well as its capability for sound management of extraction and exploitation of natural resources. This mistrust over the formal institutions creates a gap between the community and the government that hinders realization of development initiatives. Based on the findings of the survey and the experiences of other resource-rich nations discussed in the literature review, I conclude with the flowing recommendations.

1- A regulated and gradual decentralization of the fiscal and budgeting system is required in order to open space and give way to local governments and local initiatives. This would enable the central government to cope more effectively with the potential future challenges that may arise when natural resources revenues increase and become more important in Afghanistan's economy, by sharing the burden with the sub-national administrations.
2- A provincial development fund code should be established and activated by the Ministry of Finance by the new fiscal year 2019, so that the allocated 5% of revenues can be collected and disbursed for development projects in the producing provinces.
3- The amended draft of the Minerals Law that provides a better and clear regulatory framework for the mining of Mineral resources in Afghanistan and includes recommendations from civil society and transparency advocates should be processed promptly to fill the existing vacuum and regulatory deficiencies.
4- In addition, a procedure for allocation and execution of the provincial development fund is required. This procedure must consider the local demands and civil society

recommendations and balance it with administrative requirements through a fair formula of distribution and defining of a transparent mechanism of implementation.

5- In complete compliance to the EITI standards and requirements, Afghanistan needs to take preventive measures on the possible impact of the mining on its environment and society.

Annex I:

A Proposed Draft of

Procedure/Regulation for Distribution of 5% Revenue of Natural Resources for Provincial Development

The discovery of hydrocarbon resources and minerals in Afghanistan provides the country with an opportunity to fast-track the economic and social transformation process. However, these resources are finite and the associated revenues can be immense. If not well managed, these revenues have the potential to undermine the macroeconomic, budgetary and governance structures that have been built over the past years leading to waste. In order to sustain the economic and social transformation process beyond the extraction era and exploitation period, we will have to manage the natural resources revenues in manner that will encourage other sources of wealth creation.

Investment in infrastructure and channeling the revenues for equal development and enabling economic factors that would precipitate long-lasting and sustaining economic growth is important for making the best use of natural resources. As the Minerals Law provides for the sharing of 5% of the overall natural resources revenues with the areas where the natural resources are discovered and exploited, revenue sharing is an important factor ensuring social cohesion and mitigating the negative effects of mining on local communities and producing regions.

Natural resources revenue shared with local governments, if not well managed, can be a source of destabilization to local government financing, budgets and investments. In order to avoid the potential to undermine local government operations, natural resources revenues to be shared with the local governments ought to be pre-specified in terms of projects based on defined criteria. In order to promote transparency and accountability, natural resources revenues will be shared with recognized local authority structures within the producing region.

Having in mind, the necessity to prevent horizontal conflicts, and to make sure that the communities in the mining areas and producing regions affected directly or indirectly by mining activities are protected and compensated, this procedure provides for a mechanism for the sharing of mining revenues with the local governments in each producing region, with a view of mitigating the overall impact of these revenues on the economy. This procedure requires the highest standards of transparency and accountability in the management of natural resources revenues and gives the institutional and governance structures to be used to achieve this.

Article 1:

According to the Article 9 of the Constitution, natural resources are the property of the state and shall be managed through related regulations. This procedure has been enacted pursuant to the article 84 of the Minerals Law (2014).

Article 2: Objectives

The objectives of this procedure are:

(1) To regulate the appropriate use of the 5% allocated portion of natural resources revenue;

(2) To regulate and manage the distribution of the allocated natural resources revenue for provincial development;

(3) The economic self-sustainability of Afghanistan through the development of its Minerals sector;

(4) To ensure that redistribution of natural resources revenues is managed according to the best international practices and experiences;

(5) To ensure that the communities in the producing provinces and areas directly/indirectly affected by mining activities benefit from revenues of extracted and exploited natural resources

(6) The sustainable development of infrastructure in mining areas;

(7) To ensure equal development across the country,

(8) To promote peace and security through development of social and economic activities in the Mining local communities.

Article 2: Definition of terms

The following terms in this procedure shall bear the meaning as defined bellow:

1. **“Mine”** means any place where the existence of minerals has been proven and Mineral Activities or any related activity connected with Mining is carried on. All buildings, premises, installations and equipment related to Mineral Activities, above and below the ground levels, for the purposes of extraction, Processing and preparing minerals are included in this definition;

2. “**Mining Operations**” means the activities that are carried out during the course of Mineral Exploitation;

3. “**Mineral Activities**” means the Reconnaissance, Exploration and other pre-production activities, Exploitation, Processing, transformation, Ancillary Activities, transportation, export, marketing or sale of Minerals. Reclamation and Mine closure activities, whether on surface or sub-surface or in water courses, are also included in this definition;

4. "**Exploitation**" means operations and activities related to the technical and economically viable extraction of Minerals or continuing Exploration of Minerals;

5. “**Mining**” means the activities that are carried out for the purpose of Mineral extraction;

6. “**Small-scale Mining**” is Mining activities conducted for the purpose of extraction and Exploitation of industrial minerals (such as clay, lime stone, gypsum, salt, talc, gulnazyts, barite, fluorite, asbestos, graphic [graphite], kaolin, sulphur and carbonates) in an area not exceeding one square kilometer and sixty (60) meters in depth;

7. “**Mineral Development Contract**”: is a written agreement which is entered into by the State and a Legal Person for the purpose of Exploration and development of Minerals and Exploitation Activities, and in which the rights and obligations of each party are set forth in accordance with the provisions of this Law;

8. "**License**" means a written document which is granted to a Person for the purpose of conducting Reconnaissance, Exploration, Exploitation, Small-Scale and Artisanal Mining activities, of Minerals, pursuant to the provisions of this Law;

9. “**License Holder**” means the Person in whose name, the License of Mineral Activities is registered in accordance with the provisions of this Law;

10. “**Area**” means the surface or sub-surface of land where a License Holder can conduct Mineral Activities according to the provisions of this Law;

11. “**Affected community**” means those persons who are impacted, or can be reasonably expected to be impacted, by Mineral Activities;

12. “**Surface Rent**” refers to the amount that a License Holder pays to the owner or occupant of land on which the Holder intends to conduct Mineral Activities;

13. “**Royalty**” means a financial obligation payable by a License or Authorization Holder or contractor to the State, which is calculated as a specified percentage of the gross production or gross production revenue;

14. “**Provincial Development Code**” refers to the budget code that shall be created by the Ministry of Finance for the purpose of collecting the allocated 5% of the overall revenues of extraction, exploitation and exploration of natural resources.

Article Four:

The government shall allocate 5% of the revenues from natural resources extraction and exploitation for provincial development.

1) The five percent shall be calculated and deducted from the overall revenues that arise from royalties, surface rents, taxes payment and fees, as specified in the Minerals Law and other related regulations.
2) The 5% share of the revenue shall be transferred directly upon every deposit made by the license holders.
3) All taxes charged and collected by the MoM and its directorates in the provinces and those collected and taxed by the MoF will be included to the overall revenue and hence subject to deduction of 5%.

Article Five: Establishing Special Fund Code

The 5% of the revenues shall be collected to a special fund code that will be created by the Ministry of Finance.

1) From the overall revenues of natural resources, 5% shall be transferred to the special code immediately after it is deposited to the local accounts or accounts of the Ministry of Mining.
2) The amount collected under this fund code cannot be transferred to another codes or utilized for another purposes (e.g. covering budget deficit, compensation of deficit in another budget codes, or dictation of emergency situations).
3) This fund shall be utilized for provincial development as required by the Minerals Law through implementation of development projects.
4) The amount to be allocated for every producing province shall be calculated based on the previous year's revenues.
5) No direct diffusions of cash can be made from this fund to provinces, municipalities, districts or local communities.

Article Six: Allocation of the fund for producing provinces

1) Each producing province shall receive a percentage of the provincial development fund based on the population size and their share in the overall national income from the extraction and exploitation of natural resources without positive or negative discrimination in allocation of the fund.
2) Taking into account fairness and equity principles, the formula for provincial allocation of the revenue from the Provincial Development Code (PDC) is a function of the sum of the weighted population share and the weighted production share as represented below:

   LGRSi = R/2 * (Weighted LG population share + Weighted LG Production Share)

   Where; LGRSi – Individual local government royalty revenue share,

   LG – Local government

   R Total local government royalty share

R/2 seeks to split the allocated fund into two halves, with one half to be shared on the basis of population distribution and the other half on the basis of the share of the producing province in the overall national income from the mining sector.

Article Seven: Local distribution of the allocated fund

In order to avoid concentration of projects funded from the Provincial Development Code within a specific area in the producing province, and to address the claims from the other parts of the producing province, based on the formula stated in the Article Six of this Procedure, the overall allocated fund for the producing province shall be shared in accordance with the following formula:

1) 45% of the allocated fund from the PDC to the communities directly affected by mining activities and extraction/exploitation process and or areas where mines are located
2) 5% to the affected citizens/individuals including the land owners whom their land/property has been occupied/used for the purpose of extraction or exploitation of the natural resources, provided that those properties under acquisition process is excluded
3) 50% to other districts/areas of the producing province, provided that if the allocated budget is not sufficient for financing all prioritized projects proposed for the mentioned districts/areas, 1) level of priority, and general impact of the projects on the livelihoods of the communities should be considered. 2) Projects funded from PDC can be implemented in rotational bases.

Article Eight: Prioritization of development projects in producing provinces

Local government in consultation with local communities shall assess and identify the priority areas for development from amongst the requested projects (e.g. roads, bridges, canals, small electricity projects, agricultural machines, schools, etc.).

1) Local communities within the geographical jurisdiction of the producing province shall submit their proposals for projects to be funded from the PDC to the local liable authority (e.g. district) during the third quarter of the fiscal year.
2) The provincial government shall prioritize the received proposals in accordance with the principle of revenue sharing specified in the Article Seven of this Procedure, in close consultation with the Provincial Council through establishment of a joint committee.
3) Focus groups and civil society will be also represented in Joint Committee consultation meetings for selection and prioritization process.
4) The local government and the parties involved in the prioritization and selection process of the proposals for development projects have to consider the percentages stipulated in the Article Seven to ensure inclusion of the projects from all areas of the province based on the given formula.
5) A list of such prioritized projects together with necessary specifications shall be submitted to the central government for fund allocation and further processing.

Environmental, social and economic factors should be considered in giving priority to the proposed projects. A proposed project with the utmost positive impact on social welfare, economic growth and development, sustainability of the local economy, mitigation or prevention of environmental effects of the mining activities should be given higher priority.

Article nine: Implementation of the Provincial Developments Projects (PDP)

All prioritized projects for PDP, after due consideration of the available funds in the PDC in accordance with the sharing formula specified in the Article Six of this procedure shall be implemented through Citizen Charter Priority Program (CCPP).

The planned projects of the producing provinces funded from the national budget should not be substituted with the projects funded from the PDC. However, the Ministry of Rural Rehabilitation and Development (MRRD) may avoid duplication of similar projects in the same areas.

The MRRD shall develop a communication mechanism with the local governments in the producing provinces to ensure local priorities are considered in a satisfactory manner to both the local communities and local authorities.

The MRRD also should communicate through a system of information sharing with the Ministry of Mining to make sure that the development projects included in the Community Development Agreements (CDAs) as part of the support documents for the award off the contract for extraction/exploitation are not duplicated in the same area.

Article Ten: Large-scale projects

If proposed development projects includes large-scale projects that,

- In terms of costs and expenses, it exceeds the budget share of the allocated fund for a single fiscal year,
- In terms of timeline and life-cycle, it exceeds the span of one fiscal year,

Since, the current financial system does not allow transfer of the allocated fund from one FY to the next FY, the Ministry of Finance shall transfer the remaining fund to other projects with budget deficit and shall compensate the project budget from the next FY budget.

In such cases, the total budget allocation of the project should be divided into the project timeline as required and provide for the necessary budget of each FY until the completion of the project.

Article Eleven: Monitoring and supervision

Technical supervision and quality control of the development projects shall be done by the MRRD similar to all other projects implemented under the CCPP.

Local community involvement in the monitoring and supervision of the projects implementation shall be guaranteed through Local/Village Councils in accordance with the technical specifications of the project.

The company shall acquire the satisfactory signature of the local council representatives upon completion of the project, reflecting the satisfactory quality of the project.

If the project entails handover of technical equipment, e.g. agricultural machinery, the receipt should bear the signature of direct beneficiaries (if they are individuals) and endorsed by the local council.

Article Twelve: Accountability Assurance

In order to ensure accountability and transparency of the processing of the proposals from local communities, selection, and implementation of the development projects funded through PDC, at the end of the FY, a financial report shall be shared with local governments and Provincial Councils with sufficient details that would enable them to judge and gage the accountability of the process and procedures for implementation of the Provincial Development Projects.

Civil Society, local Focus Groups, and local communities should have access to all financial data related to the projects.

Annex II: The Questionnaire

On Distribution of the 5% of the Natural Resources Revenue for Provincial Development in Afghanistan

Part One

☐ Male	☐ Female	Focus Group: ( )
Province:		
Age:		
Occupation:		

Part three

Q1: Is there any natural resources mine in your district?
☐Yes ☐No

Q2: Do you and other residents of the area benefit from the exploitation of the natural resources in your district/village?
☐Yes ☐No

Q3: Are the mines in your area have been exploited?
☐Yes ☐No

Q4: What are the mining types, large scale, or small/medium scale?
☐Large ☐Medium/Small

Q5: Have the winner company consulted the local community on priorities of the local community of development, before starting exploitation of the mine?
☐Yes ☐No

Q6: Is there a written agreement between the company and the local community?
☐Yes ☐No

Q7: In case of such agreement, have they implemented the committed projects?
☐Yes ☐No

Q8: What negative impacts mining have had on your life?
……
……
…………………………………………

Q9: Have mining caused eruption of any local violence? If yes, what sort of local violence has erupted as a result of the natural resources exploitation?
……
……
…………………………………………

Q10: What is the role of local strongmen in mines exploitation and extraction? How do you evaluate their role?
……
……
…………………………………………

Q11: Have the extraction caused deterioration of security situation in your area?

☐Yes ☐No

Q12: If your answer to the above question is positive, what factors are involved in deterioration of the security situation after the inception of the extraction process/bidding process?
……
……
………………………………………………………………

Part three

Q13: According the article 84 of the Minerals Law, 5% of the mining revenues is to be allocated for provincial development. What are the main priorities in your area to be funded by this budget?
☐ School ☐ Madrasa ☐ Mosque ☐ Bridge ☐ Water canals/system ☐ Road ☐ Small electricity projects ☐ Aqueduct ☐ Drinking Water ☐ Agricultural Machinery ☐ others (Please specify……………………………)

Q14: Which of the following channels is most preferable for spending the 5% revenue of natural resources?
☐ Through national budget (based on the central and local government's discretion)
☐ Through Citizen Charter (in consultation with the local communities)
☐ Through private mining companies
☐ Through nongovernmental organizations

Q15: Do you trust local government for execution of the allocated fund from the 5% mining revenues?
☐ Yes ☐ No

Q16: Allocation of shares to your province should be based on which of the following criteria?
☐ Derivation based (value or volume)
☐ 5% of the overall national revenues from natural resources
☐ According to the population size
☐ In accordance with the poverty index and your province needs for development

Q17: Do you agree with spending the allocated fund for the whole province?
☐ Yes ☐ No

Q18: If your response to the above question is negative, what is your proposal for a fair distribution of the allocated fund within your province?
…………………………………………………………………………………………………

Q 19: Which one of the following entities should supervise the expenditure of the allocated fund?
☐ A combined mechanism (by Provincial and District Councils)
☐ A combined mechanism (by District and Village Councils)
☐ A third party (an independent organization)
☐ Village Council

Q20: Do you think there is corruption in the mining sector?
☐ Yes ☐ No

Q21: Do you think there is political will for effective and sound management of the mining sector?
☐ Yes ☐ No

Q22: Do you think the government has the capability for sound management of the Mining sector?
☐ Yes ☐ No

Q23: Do you think natural resources revenues are used properly as a national wealth?
☐ Yes ☐ No

Q24: Do you want to take part voluntarily in safeguarding of the mining sites?
☐ Yes ☐ No

Recommendations:
(You may add your recommendations in areas not included in this questionnaire)

……
……
…………………………………………………………………

Part Four (Focus Groups)

This part is only for discussion in focus groups located/active in mining areas/producing provinces.
First, you have to discuss the two main systems of mining revenue distribution after proper deliberation on the two given models.

1- A derivative distribution system based on the share of each province in the overall national revenues of the government from natural resources
2- An indicator based distribution system (that considers criteria such as population size, poverty index, availability of transportation infrastructures, access to education, health and sanitation

Then you are to explain the three systems of revenue distribution and ask the focus group members to determine a share for each given area/region within the province. Please ask also to select one criterion for distribution in each system.

Objective	Distributed shares (percentages)	Criteria to be considered in advance
Local development	( )% to communities in the mining area ( )% to neighboring areas/communities ( )% to the rest of the district/province based on the local/central government's discretion	☐Population ☐Poverty index ☐Access to education ☐Access to health services ☐Wage level
Compensation for areas/communities affected by mining activities	( )% to directly affected areas ( )% to indirectly affected areas ( )% to affected communities / citizens / landowners ( )% to producing district ( )% to producing province	☐ Availability of natural resources (based on their share in production) ☐ Environmental damage index (such as mined land area, inverse of rehabilitated land area, water use by mining, presence of waste storage facilities, affected river catchment area) ☐ Presence of transportation routes ☐ Measure of loss of livelihoods
Conflict prevention	( )% to communities in the mining area ( )% to non-producing neighboring areas ( )% to special interest groups	☐Mineral, oil or gas production value ☐ Fair' formula which represents a national consensus

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