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# Afghanistan: Mining Boom Nurtures Transparency Concerns

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Go looking for Wahidullah Shahrani and chances are you'll find him at an investor conference promoting Afghanistan as an ideal opportunity for global mining companies. By most accounts the minister of mines is an effective salesman. Yet, as investor interest grows, there are doubts about whether Afghanistan has the capacity to make the most of an expected surge in mining-related revenue.

Afghanistan's mining potential appears to be huge. Depending on whom you're talking to in either Washington or Kabul, there is anywhere from \$1 trillion- to \$3 trillion-worth of minerals waiting to be excavated in the country. Now, as the international community prepares to [downsize](#) [6] both troops and aid, and Kabul prepares to open bidding on August 3 for the vast Hajigak iron ore deposits in central Afghanistan, a public debate is brewing on how Afghanistan's mineral resources can best be put to use as an engine for long-term prosperity.

To ensure that the country maximizes the benefits of its mineral wealth, non-governmental organization activists believe the government must enhance its contract monitoring and compliance capacity, as well as establish stronger mechanisms to handle the profits that large mining projects are expected to generate. In an effort to get a handle on best practices, experts are studying the lessons of a Kabul's 2008 decision to lease the massive [Aynak copper mine](#) [7] in Logar Province to a Chinese firm.

Though details of the \$4 billion contract with the China Metallurgical Corporation (MCC) remain under wraps, Kabul has been very public about the benefits of its Aynak lease deal. "It is one of the most important projects in Afghanistan," Najib Manalai, a senior adviser to the finance minister, told EurasiaNet.org. "Its direct income for the national budget is significant and it will help Afghanistan go forward toward a sustainable economy."

Published benefits include estimated annual royalties of \$300-\$350 million into state coffers at peak production, the creation of 5,000 jobs at the site; creation of a 400 MW coal-fired power plant; construction of a railway link between the Pakistani border and Mazar-i Sharif in the north, where tracks already connect to Uzbekistan; and local social projects, including a health clinic, roads, schools and payment of compensation for land acquired from locals.

One major problem, say independent analysts, is that Kabul currently lacks the capacity to absorb the benefits. In addition, the government's monitoring agency within the Ministry of Mines is confronted with a possible conflict of interest. The ministry is keen to illustrate a smooth investor process and may pressure its own monitors not to make noise if contract provisions are being violated, critics fear. Adding to those concerns, Transparency International's latest Corruption Perceptions Index [ranks](#) [8] Afghanistan the second

most corrupt country in the world.

“It [Aynak ] is a good contract apparently both for Afghans and the investing company, if the terms are implemented properly and overseen by civil society,” said Javed Noorani, a researcher with [Integrity Watch Afghanistan](#) [9] (IWA), a local non-governmental organization (NGO) that focuses on accountability for donors and the government. If not properly managed, the project could quickly turn into a form of “colonization,” he added.

Although the deal looks good on paper for Afghanistan, it is not clear that Aynak will begin production anytime soon. And under the terms of the contract, Kabul will not receive 70 percent of the \$808 million signing bonus – nor, of course, any annual royalties – until production begins. Royalties, capped at 19.5 percent, could fluctuate widely if prices at the London Copper Exchange are unfavorable.

At present, little is happening at Aynak. Already the project has been delayed by Kabul’s belated decision to document an important fifth-century Buddhist site there. But even more problematic is security. Though the Ministry of Mines has promised to safeguard mining projects throughout the country, ongoing fighting in the province and the lack of safe transit routes pose a major security challenge. There have been almost no attempts to ensure local buy-in for the project, according to IWA representatives, noting that the government is currently involved in a contentious land acquisition process with local villagers.

Equally worrying are the possible environmental consequences. The area is drought-prone and the mine is likely to further deplete a receding water table. There is no agreement yet between the government and the company on how to protect the surrounding environment, fueling fears that inadequate measures could leave the entire water basin, including water supplies to Kabul, polluted. Though authorities insist they will strictly enforce environmental protection measures stipulated in the MCC contract, critics doubt the government has the ability to follow through on the pledge.

Proponents argue the Afghan government has taken several steps to build capacity and ensure transparency, including becoming a candidate for membership in the Extractive Industries Transparency Initiative – EITI – the global standard that promotes transparent management of mineral and hydrocarbon revenues. Currently the Ministry of Mines is streamlining the mining law and taking steps to bring greater transparency to the bidding process for Hajigak, the iron ore deposits. But much of the focus is simply on promoting investor confidence.

“Despite numerous programs initiated under the leadership of the current minister to acquire capacity, there is still a big gap in the capacity to implement the project in harmony with social, economic and cultural dynamics of the local communities who will be affected,” said Noorani of IWA.

With all the challenges of doing business in Afghanistan, some analysts fear investors are simply grabbing mineral deposits by bidding on them, only to delay their production until security improves. “Delays may happen,” admitted Manalai, the finance minister’s advisor. “But right now we have 3,000 people directly benefitting from employment on the project. It is a good start. It could be better. But it is a good start. I hope with this experience we will make a much better contract for Hajigak.”

**Editor's note:** Aunohita Mojumdar is an Indian freelance journalist based in Kabul.

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