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Hope Amid Chaos: Mineral Resources & Afghanistan's Economic Future

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Afghanistan reportedly has mineral resources worth \$1 trillion

As Afghanistan opens the doors to its **first national park**, the fate of its rich array of natural resources remains unclear. After three decades of conflict and civil war, the country is desperate to use its mineral wealth to get back on its feet. The Afghan government, meanwhile, is occupied with the difficult task of transitioning from foreign control to complete independence. Given the fact that two-thirds of Afghanistan's national budget **is derived from external funds**, the extractive industries could prove to be a crucial source of independent revenue.

Private international companies are also eager to profit from Afghanistan's mineral resources. Some have already won lucrative mining contracts while others are submitting bids for various medium and large projects. With increasing pressure from the International Monetary Fund (IMF) for Afghanistan to open its mining industry to private investment, international companies will have plenty of opportunities to capitalize on the situation.

Whether or not the Afghan people will significantly benefit from their country's mineral wealth will ultimately depend on how mining contracts are conceived, awarded and implemented.

Wealth and Concessions

According to the **head of the Afghan Geological Survey**, Afghanistan contains approximately 20 billion tons of iron, 11.3 million tons of copper and numerous chromite, gold, lithium, hydrocarbon and gem deposits.^[i] The **Ministry of Mines** (MOM) estimates that 30% of Afghanistan's surveyed mines are worth approximately 3 trillion dollars, with 70% of the resources yet to be evaluated.^[ii] Despite unprecedented amounts of foreign aid and technical assistance, however, production capacity and institutional infrastructure have been severely limited due to ongoing strife.



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Another important contract, which has yet to be awarded, is for the extraction of [Hajigak iron](#) ore mines, located in northern Afghanistan and currently estimated to contain 1.8 billion tons of iron ore. As one of the largest iron mines in the world, Hajigak has attracted six major international investors. A good contract might provide employment, infrastructure development and revenues for the government. MOM is also accepting bids for medium-sized contracts that provide licenses for gold, coal, chromites, and salt mines in the Hajigak region.

Corruption and the Lack of Transparency

Although mining concessions can provide benefits for the Afghan people, as more mines are opened to private bidders, there are serious concerns that must be addressed. The most troubling aspect of these concessions is the lack of transparency in evaluating the bids and contract content. Although Afghanistan agreed to implement the [Extractive Industries Transparency Initiative](#) (EITI) in March 2009, the process has been fraught with difficulties due to fluctuations in the political will necessary for enforcement.

Sources within Afghanistan's inter-ministerial commission indicate that ministers have often intervened to help certain bidders increase their chances for securing contracts.^[iii] Over-exploitation is also a major problem, for example in the Sabzak coal mine in Herat. However, as MOM's inspectors have been unable to produce concrete data, the problem remains unresolved. In many cases, this general lack of oversight favors politically connected companies.^[iv]

Although big contracts such as Hajigak and Aynak have captured the attention of the international media and other stakeholder, small and medium size contracts, which have mostly been awarded to local investors, are less closely monitored and provide more opportunities for corruption. One glaring instance of such corruption is the chromite mine in Khost, which was exploited for three years without remitting any royalties, and illegally exported the metal to Pakistan, according to customs documents. Many close observers, including Afghan politicians, members of parliament and state employees, fear that the situation will worsen as more mines are opened for bidding.

Limited Benefit of Existing Licenses

Given Afghanistan's reliance on foreign aid, the importance of the mining industry's potential as a generator of independent, domestic revenue cannot be overstated. Increasing pressure has been placed on the Afghan government to open up the country's natural resources to private investment. According to sources within the Ministry of Finance, the IMF has been the most vocal proponent of policies that would open up the mining sector to private investment, as a way to generate revenue for Afghanistan's national budget. Greater privatization in the extractive industries should, in theory, lead to increased government revenue. The terms of existing licenses, however, paint a different picture.

For example, while the royalty rate stipulated in the Aynak copper contract is progressive, it is capped at a maximum of 19.5% of the price of copper, as determined by the London Metal Exchange. After reaching this threshold, the royalty rate becomes flat. Under these terms, Afghanistan will receive little royalty when the price of copper is low, as it will be offset by the high cost of extraction. By the time the price of copper increases, however, the contract will have reached its cap and will generate a limited amount of revenue. Major operating costs for the company extracting the mine will remain constant in spite of increasing revenue, but the royalty payments for Afghanistan will remain constant at 19.5%. The result is higher profits for the private sector, but limited revenues for Afghanistan's government.

Another example is the gold mine in the [Qara Ghazhan Dushi district in Baghlan province](#), which is run by Afghan Krystal Natural Resources. This company is not only accused of having won the contract as a result of political favors,^[v] but has paid little to no royalties on profits from the mines. The current production capacity of the mine is unknown, but according to sources it previously produced 1.5 kg of pure gold per week during the civil war that gripped Afghanistan in 1990s.^[vi]

The lack of oversight has also affected other mining operations, such as the precious and semi-precious stone deposits extracted by local stakeholders who pay no royalties on these extractions to the state. The emerald mines in Panjsher province and the lapis mines in Badakhshan province are also exploited by politically connected individuals, including, in at least one case, a woman.^[vii]

Potential Development of the Private Sector

Investment in the mining industry offers opportunities for numerous other associated businesses to generate revenue from large mining projects. For instance, the Aynak Copper Project and the soon to be awarded iron mine contract at Hajigak, will require a number of goods and services for their operations, such as heavy machinery, explosives, construction and maintenance services. Since Afghanistan is still extremely reliant on agriculture and lacks developed industries, its private sector cannot provide these special goods and services.

demand. Foreign entities operating in Afghanistan have little trust in local businesses, thereby increasing dependence on imports.

In the past, the MOM has organized a number of expositions in Europe, the United States and Asia to attract investment in Afghanistan's mining sector. The MOM has also [enacted a five-year business plan](#) with the aim of creating an investment-friendly environment, encouraging investment and increasing revenues from the mining sector. Meanwhile, the World Bank has been working on a resource corridor to connect big mines and has been building the necessary infrastructure to connect Afghanistan with sea-routes in order to export minerals to outside market.[\[viii\]](#)

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