

Aynak: Afghanistan Beyond Aid ?

World's second Largest Unexploited Copper Deposit: Development Opportunities and Threats for Afghanistan

Since 2001, Afghanistan is going through a long reconstruction process mainly facilitated by international assistance. The Afghan state is dependent on this aid and faces difficulties in generating sufficient revenue for its expenses. In this context, the mineral resources present in Afghanistan can potentially generate important revenues, investments and employment contributing to national development. In this context, the 20th of November 2007, the Afghan government announced that the China Metallurgical Group was awarded to right to extract copper from the Aynak deposit, forty kilometres south of Kabul. The Aynak copper mine may become the most important source of income for the depleted Afghan state, and a major lever for development. But the project presents significant threats for the country's environment, economic and social stability

Integrity Watch Afghanistan (IWA) has conducted the only publicly available study on Aynak copper mine's opportunities and threats for sustainable development.

Our study shows that:

- The estimated 2.9 billion USD investment by the China Metallurgical Group would be the largest foreign investment in Afghan history, introducing Afghanistan in the world's top 15 copper producers. On the long term, mining activities could generate a gross revenue equal to 1,7 times the 2006 Afghan State budget, and bring to the State an income equivalent to 47% of the 2006 Afghan State budget. The spill-over effect in the local economy can be very important, as 70% of the mining operations' cost will potentially be spent on the local market, approximately 2,400 jobs could be created and 6,000 jobs indirectly generated, while it could bring livelihoods for ten of thousands of people.
- The initial set-up, exploration and extraction activities to be undertaken at Aynak are critical for the long-term success of this operation and will have consequences for decades. These consequences can be both positive and negative depending on the legal environment created by the State and the integrity with which the mining company will operate.
- All the transformation process of copper ore into refined copper must take place on Afghan soil in order to generate the expected revenues. The energy constraint associated with refining might put the Afghan State and the mining company undertaking Aynak on divergent positions. However the latest declarations from the Afghan Ministry of Mine suggest that refining will be done in Afghanistan. Future contracts involving copper mining in Afghanistan should also bear this condition.
- While the selection process was quite satisfactory, the institutional process is hampered by severe shortcomings: A Mineral Law has been passed but there is no regulatory environment, as regulations and regulatory bodies are not well defined or simply not existent. The laws regarding mineral extractive industries are in themselves too vague especially regarding local communities' involvement, land tenure and protection of the environment. These should urgently be addressed by the yet non-existent regulations.
- Copper extraction represents significant threats for the environment in terms of highly toxic wastes and water treatment if serious attention is not given in applying safeguards.
- Local communities should be involved in decisions regarding Aynak that will have long-term consequences for them. At the same time, the government has to manage public opinion and its own policies in such a manner that Aynak does not become a source of future social turmoil. The revenues generated by mining should benefit the local population and local entrepreneurship should be supported to maximize spill-over effect on the local economy.

IWA's concern regarding the success of Aynak for sustainable development of Afghanistan:

- **Minor concerns and concerns already addressed**
 - The mine's economic feasibility has already been fully investigated and it should meet the requirements of the key actors, including the investor;

- Thanks to the technical assistance provided, the generation of significant State income is feasible. On-going public finance reform will help in maximizing the actual benefits of these revenues for the development of Afghanistan.
- **Moderate concerns**
 - The need for electricity will most probably be met for the extraction and processing operations. But it is unclear yet to what extent the project's potential to contribute to development of Afghanistan's national power supply will be realized;
 - Land tenure issues are complex, but limited in this case to a small population. They must be addressed for future mining projects.
- **Important concerns**
 - The involvement of local communities and environmental impact have not yet been approached as a major issue, and the next steps will be decisive in addressing these critical questions;
 - In particular, water consumption and wastewater management will have to be very carefully dealt with, since their mismanagement can potentially have disastrous consequences.

About the project

This IWA study was conducted in July and August 2007 in Kabul by Emmanuel Huntzinger, an international development and strategy consultant; it relied on in-depth interviews with the main actors directly involved in the Aynak project. It is the first step of a long-term involvement of Integrity Watch Afghanistan in the monitoring of Aynak.

The Norwegian Embassy in Afghanistan has financially supported this study.

About IWA

IWA's mission is to "increase transparency, integrity and accountability in Afghanistan's reconstruction process". IWA considers that high integrity standards must be applied in the private sector to increase its benefits and to ensure sustainable business for development of Afghanistan. To achieve this goal, IWA provides policy-oriented research and develops monitoring tools for the reconstruction actors and the public at large.

For more details and information about IWA, please see our Internet site at www.iwaweb.org

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