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AFGHANISTAN RESEARCH NETWORK

Afghanistan's Minerals: Past and Present

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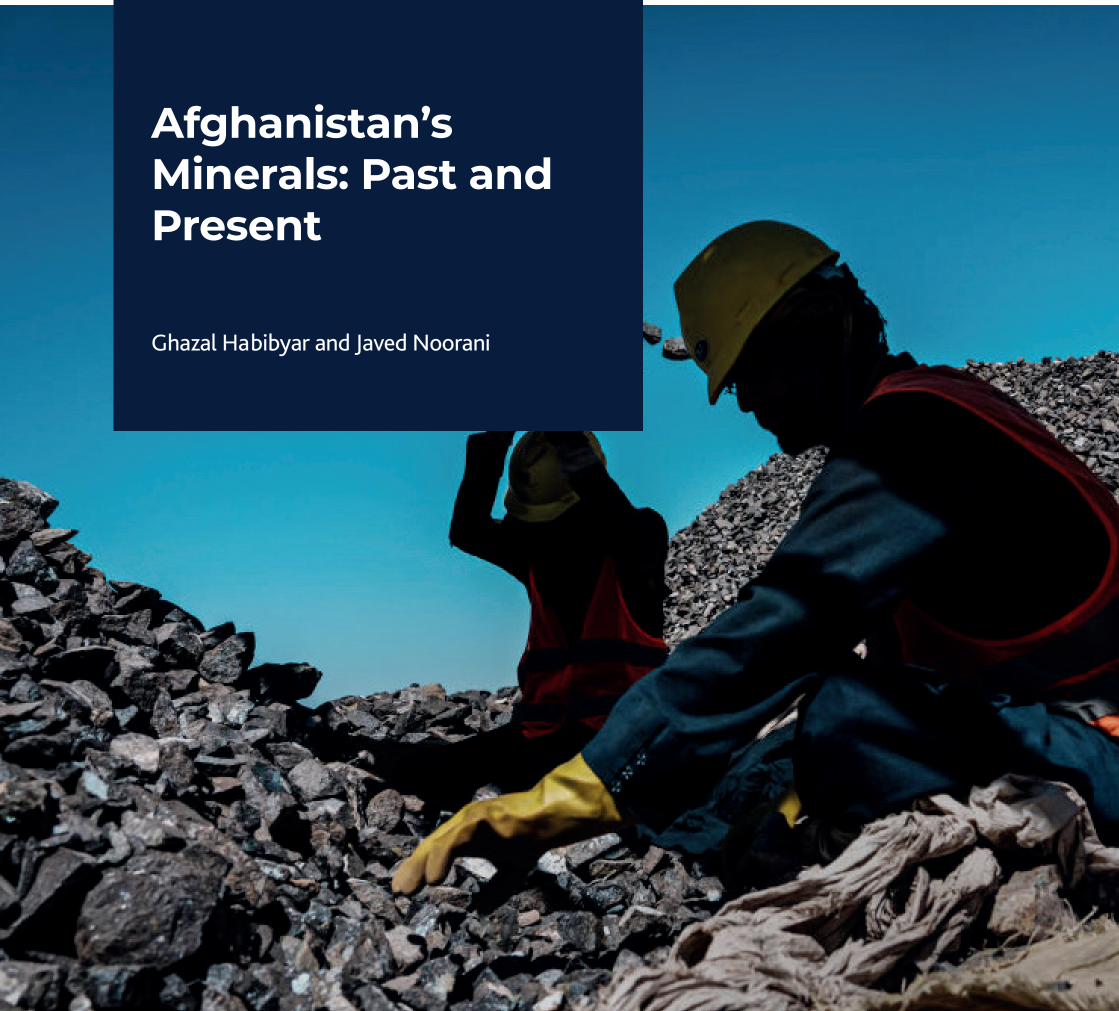

Afghanistan Research Network

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The Afghanistan Research Network is supported by the Peace and Conflict Resolution Evidence Platform (PeaceRep), funded by the UK Foreign, Commonwealth & Development Office (FCDO) for the benefit of developing countries. The information and views set out in this publication are those of the authors. Nothing herein constitutes the views of FCDO. Any use of this work should acknowledge the authors and the Peace and Conflict Resolution Evidence Platform.

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Design: Smith Design Agency

Submitted March 2023, published June 2023.

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Key Takeaways

- The Taliban regime in Afghanistan lacks knowledge and a long-term vision in the mining industry to capitalise on the opportunities available to develop the economy, forcing them into ad-hoc sector management.
- The regime has increased the royalty rates within the mining sector significantly, which has had a negative impact on the marketability of these commodities abroad.
- Competition has been observed among Taliban factions regarding mining sector revenues, with all sides entrenching loyalists in the decision-making process. This has involved nepotism, cronyism, conflict of interest, and extra-legal activities.
- Corruption in state machinery remains a concern for governance of natural resources. Regional countries have a growing interest in Afghanistan's mining sector, and some have even resorted to the illegal extraction of strategic minerals.
- Emerging criminal networks are resorting to illegal extraction, resulting in the extortion of money from mining companies operating in remote areas.

Introduction and Methodology

This report provides an overview of the mining sector in Afghanistan before August 2021. Any changes discussed after this period are highlighted. The report comprises a literature review – including past sectoral reports – and a review of the previous legal framework and management mechanisms. In addition to this, the team reviewed mining sector and media reports. The report also discusses on primary data, which was collected through interviews with industry experts, and investors who had personal experience engaging with both the current and previous regimes.

Access to data was a great challenge. Government websites – such as the Office of the President, where records of cabinet decisions could be found previously – are no longer accessible. Most of the current Ministry of Mines and Petroleum employees avoid interaction and the sharing of information. For decades there has been discussion of Afghanistan's large endowment of natural resources. In a 2010 report, the Task Force for Business and Stability Operations (TFBSO) at the U.S. Department of Defence estimated the mineral wealth of Afghanistan to be approximately $1 trillion. This included hydrocarbons, rare earth elements, copper, iron, gold, coal, and precious and semi-precious stones (Peters et al.; 2011). Both the Afghan government and the international community welcomed the report, with the former recognising the potential this offered for building the country, revitalising the economy, and creating jobs; and the latter seeking an alternative to providing aid in Afghanistan.

Historically, small and artisan-scale mining took place across Afghanistan. Afghan Gas, a state-owned enterprise, for example, has exploited northern Afghanistan for gas for decades; Aynak copper, additionally, was signed in 2007. The TFBSO report generated a sense of both hope and urgency to attract private investment – particularly from abroad – for large, mega-mining projects. There were further efforts to develop an inclusive legal framework to attract private and foreign investment, a concept that was new to Afghanistan, as mines were previously explored and exploited by state-owned agencies and enterprises.

Mineral resource development in the Republic, however, did not develop as quickly or as fully as initially hoped. One major reason for this was the unrealistic nature of the expectations set for the development project. Moreover, the sites were insecure and covered with explosives, or held archaeological remains of great significance – in some cases, both. The required physical infrastructure, such as railways, which was also non-existent, as were the technical abilities needed within the country; negotiations – at least initially – also depended heavily on international consultants.

This report seeks to summarise the main factors that contribute towards the development of extractive industries, their status in post-2001 Afghanistan, and the state of extractive industries at the time of the Republic’s collapse. It will then investigate the current governance structure, and the potential risks that it imposes.

The Legal Framework

The Mining Law, enacted in 2009, defined roles, responsibilities, and procedures for developing and managing mines in Afghanistan. The first set of mining regulatory policies were approved in 2011, which formed the basis for the mining legal framework. The Mining Law was then amended in 2014 and 2019 (UNDP; 2020). These frequent changes in the law and its regulations did not provide a stable investment environment. These changes can be attributed to inexperience with private sector investment in the Afghan government, and an eagerness to improve the framework in a way that would contribute to the country’s development. In addition to the frequent changes in the legal framework, lengthy processes and other difficulties associated with business dealings in Afghanistan discouraged sector investment (Pikulicka-Wilczewska; 2019), as well as political instability.

The current regime continues to use the previous regime’s legal and management framework (MoMP; 2018a). The Ministry of Mines and Petroleum (MoMP) website, for example, still shows the laws and regulations for both the minerals and hydrocarbon sectors (Pikulicka-Wilczewska; 2019). Whilst the regime has made some amendments to the 2019 Mining Law – according to a former senior official at MoMP – The Mining Commission, an old inter-ministerial structure mandated to evaluate the bid documents mineral deposits, continues to be in use.

The Taliban regime in Kabul has awarded several contracts in the past year. According to a geologist working at the ministry, The Ministry of Mines and Petroleum tendered nephrite and chromite deposits for private investment, and numerous proposals were submitted (MoMP; 2018b). Evaluation of the proposals was conducted according to the Mining Law. Once the evaluation was complete, however, the minister took an extra-legal step to auction the deposits among those who had submitted evaluated proposals. The company that offered the highest royalty was awarded the contract. This act is in contravention to the law under which the tender was issued. In the nephrite auction, the highest bidder offered approximately US$100,000 per metric ton (MT) of nephrite as a royalty. A royalty this high is not feasible and profitable, and the bidder did not return to operate the mine. MoMP is now calling on other bidders to come forward to operate the mine, but so far no one has shown interest. The ministry has also awarded two explosives and aggregate division (EAD) contracts, according to an account from a source at MoMP who sought anonymity for security reasons.

They stated that the ministry invited investment in lead deposits in Bibi Gawhar, in Kandahar. The ministry received 42 bids for the deposit, but the ministry selected two companies, Aziz Union and Bashaktash. The chairman of the company is Malek Panjshiri, who, the source said, is a “front man” for Sepah Pasdaran-owned companies that belong to Iran’s Revolutionary Guard. Whilst this is unverified, the manner in which the deposit was awarded is suspect, and Iranians have been vying for mining contracts since the fall of the republic.

China, among potential international investors, have been taking many risks to win mining contracts. The Amu Darya oil contract was awarded to a subsidiary of the Chinese National Petroleum Company (CNPC) in contradiction with applicable law. The contract for the Amu Darya oil and gas deposit had, since 2011, been with the CNPC and Watan Group joint venture. Kabul’s previous regime cancelled the contract after a disagreement between the partners, and subsequent failure to deliver on time. On January 1, 2023, the government awarded the same contract back to a subsidiary of the CNPC without retendering, which is illegal. The MoMP website still shows the old contract (MoMP; 2018c).

An Afghan affairs expert of Chinese origin said, “private Chinese investors who try to get contracts in Afghanistan face difficult times.” A Chinese professor based in the U.S. who has been visiting Afghanistan for more than a decade said, “Taliban do not have common sense about mining. They do not know that investment is not charity.” It is further suggested that the lack of knowledge of mining among the Taliban leadership, and manipulation by older bureaucrats at MoMP, make the situation more difficult for international investment. According to the Chinese professor, officials of the ministry openly ask for gifts from investors. Despite numerous challenges to manage existing contracts and monitor implementation, the regime has tendered more deposits in the west of the country (MoMP; 2018d), where they have tendered eight blocks of iron, zinc, and lead (MoMP; 2018e), in addition to several dimensional stone deposits for private investment (MoMP; 2018f).

Political Stability and Security

Insecurity, limited access to mining sites, and corrupt networks have created an unconducive environment for illegal mining. Illegal mining activities further contribute to fuelling violence and conflict, undermining the government (UNDP; 2020). In addition to the local insurgent groups, former Mujahideen, Taliban, and later the Islamic State of Khorasan (IS-K) were also beneficiaries of illegal mining and the revenue it generated (O’Donnell; 2022). In some cases, they were involved in mining or collecting royalties on top of what the government had imposed, and in others provided protection and security to the mine site and transportation of mineral commodities.

While revenue expectation was high, little political attention or support was provided to the sector’s development. The government further handled the sector through using fear, uncertainty, and mistrust. One such example was when President Karzai did not sign four (two gold and two copper) large mining contracts in 2014, leaving it to the next government, even though the contracts were finalized during his presidency.

There was little consensus between government institutions, experts, civil society, and the general public on what to do with these natural resources, resulting in an environment of mistrust and confusion. In 2017, the Cabinet cancelled the Ghori cement contract; a rift developed between President Ghani and Chief Executive Dr. Abdullah, leaving the Cabinet also divided (Mackenzie & Shalizi; 2017). The previous Afghan government was unable to fully inspect and monitor mining operations, because they were operating in-line with contractual terms and not violating social or environmental settings. Safety issues are very important in mining, particularly after coal and gold mines in the North collapsed in the past, killing many people. Illegal mining, however, continues in some parts of the country. A reliable source shared that Pakistani militias have been illegally extracting lithium from Laghman, Kunar, and Nuristan for the past few months. The available capacity for managing the existing mining contracts is not sufficient, while MoMP wants to award more contracts. Absence of extraction data will impact revenue collection as well as other taxes.

The belief that the Taliban will stop illegal mining is a myth; lapis, ruby, tourmaline, and now lithium have all been illegally extracted. There are numerous reports of Chinese men involved in the illegal extraction and smuggling of lithium (Gul; 2023). Whilst the Chinese may have been involved in the illegal trade of lithium, extraction and smuggling, or any other commodity, requires a network that may include local Taliban, local people, highway police, MoMP officials, and customs and border police. Moreover, IS-K will compete for resource revenue, and thus set the tone for conflict in the future.

Accountability and Civil Society Engagement

Afghanistan joined the Extractive Industries Transparency Initiative (EITI) in 2010 (EITI; 2020), and was one of the first countries to publish all its signed contracts in 2012. This gave the media, the public, and civil society access to scrutinize the contracts (Shalizi & Taylor; 2012). The Multi Stakeholder Group (MSG) during the Republic provided a platform for members of government, civil society representatives, and private contractors to come together to discuss mining contracts and the sector's challenges and obstacles. The EITI reports established a mechanism to assess progress made and challenges remaining. Based on those reports, numerous new initiatives, such as single mining cadastres, were introduced. Civil society also took an active part in the resettlement process of Aynak. While this engagement may not have been perfect, it did provide another layer of transparency and accountability.

Geological Survey and Data

During the 1960s and 1970s, the British Geological Survey (BGS), the United States Geological Survey (USGS), and the Afghanistan Geological Survey (AGS), carried out geological surveys across the country. During the Soviet invasion in the 1980s, Afghan and Soviet geologists also conducted surveys. Although these provided a lot of valuable information about mineral occurrences, none of these surveys provided resource or reserve figures. Therefore, the actual value of mineral endowment remained an estimate. Similarly, TFBSO reported an estimated value of Afghanistan's natural resources, based on an aerial survey. Geologists believe that having an accurate estimate of any reserve would require physical exploration of the sites and deep analysis.

Revenue Management and Taxation

Historically – as established at the outset of this paper – mining in Afghanistan has been for the most part small-scale, artisanal and informal, with the exception of the mining contracts signed after 2001. Thus, mining's contribution to revenue has been small, with loss of revenue also attributed to informal and illegal mining. There was no established mechanism to invest the revenues to avoid "resource curse" or Dutch disease in the case of large, mega-projects developing, as seen in the examples of Aynak and Hajigak. Initially the advance payment from the Aynak copper mine, which made the offer attractive (in addition to the 19.5% royalty payment), went to the government's single treasury account. After committing to EITI principles, the government decided to create different codes for different streams of mining revenue, but still under a single treasury account. This was to identify revenue from the sector. The majority of donors were not thrilled to provide aid, while the potential government revenues could be saved and invested.

Analysis from the Ministry of Mines and Petroleum was released five days before collapse of Kabul. It shows mining commodity exports had dropped from US$31 million in 2020 to US$3 million in 2021 (O'Donnell; 2022).

The Taliban regime has focused on royalties, which in some cases – talc, for example – has increased threefold. An official from the Core Driller mining company said they used to pay 600-700 Afghanis per MT of talc in royalties. Now the government charges 1,800 per MT. The Taliban are increasing royalties without fully understanding market demand and supply; as mentioned above, the royalty for nephrite was increased astronomically, and the royalty rate for chromite and coal have also increased. The minister of Mines and Petroleum often boasts about the revenue his ministry has generated from mining. The number of contracts awarded and new tenders both indicate that they want to see quick returns. Mining contracts have enriched the ministry's senior leadership at a personal level. Sources confided that the minister of Mines and Petroleum has transferred millions of dollars to Qatar, investing in prime property and shopping malls. A spokesperson for the minister stated he bought a new house in Kandahar for US$100,000.

Successful revenue management is a more complex issue and requires a sound understanding of the nature of mineral revenue, and how to create the mechanisms for its investment. Global mining experts and successful resource-rich countries try to retain as many revenue streams as possible, and reinvest in sustainable revenue generation. Often, the mineral revenue is placed in a fund, with a vision to keep this revenue and invest the bulk of it in secure businesses.

Norway has a Sovereign Wealth Fund, which is invested in large global companies. Today the revenue from that investment is worth more than the revenue from oil and gas export. Fund management is even influencing behaviour toward climate change (Panneflek; 2019). Overall, while important steps were taken towards the development of extractive industries in Afghanistan post-August 2021, the sector did suffer from a lack of political will, leadership — from 2014-2023 MoMP had only two full-time ministers and five acting ministers — technical capabilities, insecurity, and poor geological data. The geopolitics surrounding Afghanistan added another layer to the sector's failure in fulfilling its potential.

Literature on the mining sector shows that mining offers multiple opportunities, accompanied by some serious risks. For instance, the occurrence of mines and a mining-to-market process has several opportunity streams for tapping and localizing benefits and creating economies around each of them. Mining requires exploratory studies to understand the quality and quantity of the mineral, and social and environmental impact to assess the risk to the environment and habitats. These activities offer midstream opportunities involving construction, transportation, employment, urbanisation, and demand for goods and services. Side-stream requirements of a mining project include the need for roads, electricity, internet, and numerous other services. Direct mining offers revenues in the form of royalties, rent for lease, taxes, and, in some cases, windfall taxes. Indirectly, the host country can secure employment for its citizens and grow small enterprises around a mining project with better infrastructure, skills for its citizens, and a lot of salary-retained taxes. Value-adding opportunities lead to more revenue streams and employment in a country.

The Taliban have been involved in the mining sector for several years, collecting taxes from mine operators across the country. A confidential report for NATO showed the group annually collected hundreds of millions of dollars while they were fighting the Republic (O’Donnell; 2022). After taking over the country, the Taliban regime focused on revenue from the mining sector. Coal exports to Pakistan offered particularly quick revenue. The current acting minister, Mr Shahabuddin Dilawar, in a video interview, said MoMP’s daily revenue collection from coal export was US$700,000; an impressive figure, if verified (RTA Pashto).

A robust vision requires a profound understanding of the mining industry, critical material supply-chain market forces, and the opportunities and risks they carry. The environmental and social impact of mining can be generational, and future generations also have the right to benefit from the minerals. Balancing mineral extractions, protecting the environment along with setting up opportunities, such as universities and skill development strategies, help the country leverage the presence of minerals. Poor management can place a region, and the entire country, on a conflict trajectory and a debt trap.

Analysis

The Taliban regime lacks knowledge about the sector. This, coupled with their need for revenue to run the government, has forced them into ad-hoc sector management. The regime has remained focused on royalties and has increased the rates by several folds, which, in some cases, has had a major negative impact on the marketability of the commodities abroad. Higher revenue, as a regime objective, has led to neglecting social and environmental impacts and retention of value-chain opportunities in each mineral commodity.

The lack of a long-term vision to capitalise on the opportunities for developing the economy is also due to a lack of sound understanding of the mining industry. Chaos in the country, and emerging threats to the regime further complicate policymaking; ambiguous decisions are made within the existing legal framework. Competition over mining sector revenues among Taliban factions is evident, with all sides trying to entrench loyalists in the decision-making process. Nepotism, cronyism, conflict of interest, and extra-legal activities have all been observed throughout the sector.

Corruption at several levels in the state machinery remains a concern for management. There is also growing interest from regional countries in Afghanistan's mining sector, some of whom have been awarded contracts, while others are involved in illegal extraction of strategic minerals. New criminal networks are taking shape and resorting to illegal extraction, which further corrupts local Taliban to facilitate the flow of minerals from Afghanistan to the market.

Groups like IS-K and other criminal networks may eventually start extorting money from mining companies operating in remote areas. Sector management in the absence of a strong legal framework and functioning institutions may face several challenges, furthering illegal mining, terrorism, and conflict.

Recommendations

- Afghanistan's natural resources deposits have the five most critical minerals required by the G20 countries. The management of the sector – contextualised by diversity, size and potential – requires a sound vision to lead to the development of the extractive industries, and establish linkages with other sectors of the economy, to leverage the numerous opportunity streams associated with it.

- Sound management of the sector requires a legal framework that would encourage private investment in the sector to tap the underground resources.

- Clear roles for institutions are required. Institutions that are going to be involved in the development of the sector and revenue collection need to have clearly defined roles and responsibilities to avoid confusion and corruption.

- Revenue management policy must be in place. Mineral revenue is not sustainable, and it therefore needs to be managed in a manner that would stimulate the economy immediately, and create capitals and opportunities for the development of future generations.

- Environmental safety guards are necessary to sector management. Mining is disruptive and can have a significant generational impact on both humans and the environment. The government must establish safeguards and standards to manage the sector in an environmentally sustainable way.

- Illegal mining must be acknowledged and controlled. There are many minerals which have been illegally extracted, and these illegal mining activities can have a negative impact on both community and security at a regional and national level. The government needs to put in place measures to control illegal mining by promoting licencing and other incentives.

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PeaceRep is funded by the Foreign, Commonwealth and Development Office (FCDO), UK.

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