

SAMUEL HALL.

# SHAPING AFGHANISTAN'S NATURAL RESOURCES STRATEGY

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A National Stakeholder Engagement





**Adam Smith  
International**

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This study was commissioned by the Ministry of Mines and Petroleum (MoMP) of the Government of the Islamic Republic of Afghanistan (GIROA) through its designated agent, Adam Smith International (ASI), within the framework of a UK Department for International Development (DFID) programme of technical assistance.

It was prepared and conducted by Samuel Hall. The views and analysis contained in the publication therefore do not necessarily represent the MoMP's views.

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## ACRONYMS

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<b>AREU</b>	Afghanistan Research and Evaluation Unit
<b>ASI</b>	Adam Smith International
<b>CSO</b>	Civil Society Organisation
<b>CSR</b>	Corporate Social Responsibility
<b>DAFA</b>	French Archaeological Delegation in Afghanistan
<b>EITI</b>	Extractive Industries Transparency Initiative
<b>ESIA</b>	Environmental and Social Impact Assessment
<b>GIRoA</b>	Government of the Islamic Republic of Afghanistan
<b>IWA</b>	Integrity Watch Afghanistan
<b>IGF</b>	Intergovernmental Forum
<b>MoF</b>	Ministry of Finance
<b>MoMP</b>	Ministry of Mines and Petroleum
<b>MPF</b>	Mining Policy Framework
<b>NEPA</b>	National Environmental Protection Agency
<b>NGO</b>	Non Government Organisation
<b>PSIA</b>	Poverty and Social Impact Assessment
<b>WB</b>	World Bank

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# Executive Summary

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*This study aims to provide the Ministry of Mines and Petroleum (MoMP) with a robust set of citizen and organisational feedback to refine its natural resources vision, the Extractive Industry Development Framework (EIDF), and strategic planning process. The main objectives of the National Stakeholder Engagement are to (i) map stakeholders' expectations and perceptions regarding the natural resources sector development; (ii) involve the stakeholders in the development of Afghanistan's natural resources vision by collecting their views on what should be the government's priorities to develop the sector and the EIDF; and, (iii) ensure buy-in from a broad range of stakeholders and foster collective national ownership to guarantee continuity beyond electoral cycles.*

*The stakeholder engagement methodology relied on a mix of secondary research, quantitative surveys (993 respondents from 34 provinces), 80 qualitative interviews with experts and relevant stakeholders, and 25 focus groups discussions around mining sites (Mes Aynak, Qarazaghan, Nooraba, Hajigak and Amu Darya). Stakeholders were classified according to the government's outreach objectives and their level of awareness of the sector, with the conflict-sensitive context of Afghanistan in mind. Primary stakeholders included: government representatives, mining companies (and investors), mining sites communities and civil society organisations. Secondary stakeholders include: the media, business and trade associations, academia and the general public.*

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## ACCESSING INFORMATION

**Out of almost 1,000 survey respondents, only 11% said they knew of the existence of Afghanistan's natural resources** either well, or fairly well. The rest is a half split between those who had just heard of them or did not know of them at all. Knowledge of the sector is also somewhat superficial at mining community level. Respondents were aware of the existence of natural resources in their region but knew little about the exact extractive operations occurring in their region or the industry's specific characteristics (i.e. the development phases or prospects). The main reasons for this low level of awareness are related to the lack of media coverage (low newsworthiness of the issue at times where Afghanistan's political issues are taking the front scene) as well as a lack of a government communication strategy.

The general public has very high **short- and long-term expectations** for the development of the sector. They expect to see jobs (26% of the survey respondents), roads, clinics, general infrastructures, but also political benefits for the unity of the country. Experts expect the sector to have long-term development impacts as well but say it will largely rely on both the regulatory framework and the political will to do it right at government level. However, those living close to mines claim they **have yet to see those benefits happen** in practice. There is a **risk of a gap between the individual expectations at a macro level and the effective outcomes of the development of the natural resources**. Concerns are mainly related to the protection of the environment (22% of

the survey respondents) and cultural heritage but also the worsening security conditions, corruption and illegal mining (during qualitative interviews). Although the latter outcomes were predictable, the high level of concerns expressed around the protection of Afghanistan's 'context' (i.e. its environment and cultural heritage) constituted one of the most surprising findings of this study. At the moment, **the perceived potential positive effects of the sector still seem to outweigh the concerns it raises** - people realise that, in today's challenging political and economic context, natural resources and efficient

extractive industries are the only possible way-out. However, this balance remains fragile however; in the long-run, political decisions will have to be transparent, consultative, and equitable enough to reinforce people's positive views towards the Afghan mining sector.

## SHARING DIVIDENDS

Respondents' **top three priorities** for the spending of mining revenues are: **social services, security improvements and infrastructure development**.

Investment in education and skills in the extractive sector were also rated highly by key informants. People living in the vicinity of mining sites however expect to see specific local development programmes being implemented. The main issues pointed out with regards to **revenue management** were related to the lack of transparency of revenues, the insufficient tracking and reporting of payments made as well as a somewhat low level of confidence in the government's ability to manage the funds. It appears that this lack of confidence stems from the current levels of corruption within the sector,

the signing of disadvantageous large scale contracts in recent years as well as a perceived lack of political backup to develop the sector in a sustainable manner.

There is a large consensus over the fact that **mining revenues should be collected and managed at the central government level** at the Ministry of Finance. In the medium term, according to experts, a sovereign fund should be set up for the sustainable development of the sector. Likewise, the set up of **more reliable (and computerised) accounting mechanisms** and the implementation of the EITI transparency requirement of earmarking the mining revenues on a specific **transparent account** are seen as top priorities in order to improve the current financial management system and combat corruption. Finally, more clarity is needed with regards to **provincial development funds**. They should be governed by strict allocation rules, managed centrally, and the design and selection of projects to be funded should be achieved through participative planning with the communities.

## MANAGING THE SECTOR AND ACTORS

The government, operating according to strict legal/regulatory and institutional framework, can have a direct impact on the structural issues the sector is facing (from infrastructure development to corruption and illegal mining) and an indirect impact on security. The current framework's main weakness is its lack of **transparency**, which according to the experts does not provide for enough safeguards against some of the endemic issues Afghanistan is facing.

Publication of contracts as an ex ante condition for their validity as well as of project-level production and payment data, beneficial ownership (and the set up of penalties for hidden ownership) should be given priority.

The **bidding process** would be considered as more fair and efficient with reinforced technical assessments, the development of model contracts, the set up of legal penalties for preferential treatment, the publication of eligibility criteria (and summaries of unsuccessful bids) as well as the simplification of the awarding mechanisms (especially for small-scale contracts and low-value commodities). Civil society and media should be more closely involved in the procedures and empowered to provide comments and feedback.

**Government oversight** is weak in this sector and stakeholders call for more capacity building and coordination at institutional level (Ministry of Mines and Petroleum, Ministry of Finance, Ministry of Commerce, Ministry of Infrastructures, Ministry of Foreign Affairs, AISA, ACCI) as well as civil society and private sector actors. Stakeholders' confidence in the government's ability to develop the sector is hampered by the perceived lack of political willingness to 'clean up' the sector. **Insecurity** is seen as both an obstacle to the development of the sector (and driving investment) and a consequence of existing mining operations. However, **private sector stakeholders** are more affected by corruption, at central, provincial, and local level, and certain legal provisions that hinder their confidence in the building of a long-term partnership with the state. They need more legal

certainty and protection of their assets. With regards to **illegal mining**, a distinction should be made between illegal artisanal scale miners (which can be brought back into the system, with easier procedures, and carry important local development potential) and medium to large-scale illegal operations. The drivers for illegal mining are the macro- economic situation, the lack of state sovereignty as well as overly complicated regulatory conditions.

Lastly, there is a debate on the **development strategy for the sector**. If the government and many local actors support a step-by-step approach in order to slowly build local capacity, others argue that large-scale mining will only ever be manageable by large companies and should be developed now and support a cross-fertilizing strategy. According to private sector representatives (such as ACCI), the sustainable development of the mining industry should rely on a system by which **short-term/small- scale and long-term/large scale approaches would not be in competition**. They hope to achieve these goals via the set of joint-venture companies and consortiums.

## INTEGRATING COMMUNITIES

Active dialogue between mining companies and local residents helps create a safer operating environment for mining operations<sup>1</sup> and significantly reduces the causes and effects of the expectation gaps as well as security threats. Community dialogue and monitoring efforts are considered as 'very low' at the present time. 65% of

the survey respondents feel they are not adequately consulted with by the government and mining communities feel left aside from the decision making processes, in particular women, ethnic minorities and displaced populations. They are also very concerned about the lack of representativeness of those carrying out the negotiations in their name.

Community consultation is, however, very reliant on how **informed community members** are in the first place. They are often unaware of the potential negative impacts of mining, how a mining operation works (ie. the different phases of development) as well as of their rights. The first priority to empower communities is to educate them about the sector so that they can carry out negotiations with the protection of their communities' interests in mind in the long run.

All stakeholders expect the government to be at the centre of this dialogue. The government's role could be twofold:

- Informing, engaging with and integrating communities;
- Playing a pivotal and supportive role in the necessary dialogue between companies and communities.

In parallel, community monitoring can be implemented in the short term, with the support of the civil society. The main components are:

- The development of community monitoring tools;
- The mobilisation and training of communities to monitor extractives industries projects; and
- Building capacity amongst local civil society organisations.

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<sup>1</sup> Noorani, Javed (2013): *Afghanistan's Economic Transition in the Making? Community Perspectives from Aynak and Hajjgak Mining Sites*. Heinrich Böll Stiftung.



### Community Development Agreements

are seen as a positive first step towards more community involvement but are not yet fully implemented, lack clarity and specific enforcement instruments as well as grievance and dispute resolution mechanisms. Civil society organisations suggest using Community Development Councils as the main interlocutor and providing an incentive to local communities to file for infringements or illegal mining. According to them, communities would be more incentivised to monitor extraction activities if they perceived that the mining operations could benefit them.

The severe shortage of well-trained Afghan technical experts, administrators and managers in the raw materials sector is seen as a major obstacle for the development of the mining sector in the future. Stakeholders would support increased investment in the human resources capital in the mining sector as well as a widespread education system in the field of mining and geology.

## PROTECTING AFGHANISTAN'S HERITAGE

The high level of concern for the impact of mining on the national archaeological heritage and environment voiced during this research demonstrates the need for a responsible management of archaeological findings and the ecosystem, which can also provide for long term social and economic benefits.

Communities are usually unaware of the negative impact of mining on the environment before the operations start. Once they started, **water management and its impact on livelihoods become their main preoccupation**. They also

complained about the insufficient levels of **monitoring** from part of the government and civil society organisations in this sector.

There is a call for careful planning and relevant assessments at all stages of mining operations:

- 1 - At contract level**, assessments (and the costs attached to them) must be foreseen from the early stages.
- 2 - At operational level**, close coordination amongst relevant actors and oversight may help mitigate the negative impacts of mining.
- 3 - At local level**, increased awareness of mining communities of the importance of both these aspects (the preservation of the past and future of their villages) will help them buy in to the projects, negotiate agreements and build capacity to monitor operations on the ground.

In conclusion, stakeholders believe that Afghanistan's strategic long-term vision should include a knowledge driven development of the mining sector, more mineral processing within Afghanistan, integration with other sectors of the economy, revised and expanded legislation, a recentralized licensing system, transparency in the tender process, due diligence, a mechanism for revenue and tax collection, NEPA review, and an involved and educated civil society.

Additionally, lack of information leads to suspicions around the good governance of the sector and is detrimental to the achievement of the MoMP's mid-term and long-term objectives. The MoMP will need to build a trusting relationship with stakeholders by adopting a continuous stakeholder engagement strategy.

## POLICY IMPLICATIONS

The two preliminary building blocks for the development of the natural resources sector will be the development of the necessary **infrastructures** and the **enforcement of the law**.

With regards to policy development, the stakeholders expressed a high level of support for the adoption of an Afghan Extractive Industry Development Framework. They wish to see the following topics tackled in priority, by order of importance:

- **Transparency** (effective publication of all extractive contracts, project-level production and payment data as well as beneficial ownership)
- **Revenue management** (set of a transparent mechanism for the collection and management of revenues from the mining sector and fair dividend sharing schemes)
- **Community engagement** (community monitoring and dispute resolution mechanisms)

Environmental and archaeological protection as well as education and capacity building were also flagged as priorities but can be managed through increased institutional coordination rather than hard policy (as long as sound impact assessments are implemented from the start of the projects).

To take the debate around the sustainable development of the extractive industries sector further, Afghanistan needs a framework for a continuous stakeholder dialogue as well as tools to ensure its strategy is truly orientated towards long-term sustainable development and resilience rather than short-term economic gains.

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# 1. Introduction

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Afghanistan holds vast mineral and hydrocarbon assets, with world-class deposits such as Aynak, Hajigak and Amu Darya. Hajigak, for example, holds approximately 2 billion tonnes of high quality iron ore at 62% Fe, and is almost completely undisturbed, and there are estimated to be up to 87 million barrels of oil in the Amu Darya basin<sup>2</sup>. Some estimate that if natural resource exploitation is well managed, mining could initially bring in revenues of between 500 million USD and 1.5 billion USD per annum<sup>3</sup>. As aid spending decreases, the revenue generated from Afghanistan's natural resources could fill some of the likely funding gap, provide much-needed employment opportunities, attract foreign investment, and, help the country reach financial autonomy.

It is clear that the extractive industries can help stabilize the country and raises high **levels of expectations** of social and financial benefits among policy makers, the private sector, and local communities. Despite these promising prospects, mining operations in Afghanistan suffer some serious concerns, among them (and voiced by stakeholders in the past):

(a) **The contextual feasibility of the development of the sector:** In a

worsening security<sup>4</sup> and socio-economic environment<sup>5</sup>, how can we ensure that natural resource exploitation provides for long-term economic sustainability and fair allocations or sharing of its dividends?

(b) **The structural feasibility of the development of the sector and 'Dutch Disease'**<sup>6</sup>: Afghanistan's estimated mineral worth has been raising significant concerns on its potential vulnerability to what is known as the 'Dutch Disease' or 'Resource Curse'. This concern is justified, as Afghanistan is already experiencing a form of Dutch Disease following the influx of foreign aid, which has artificially boosted (the ultimately unsustainable) services sector, and led to aid dependency. Nevertheless, economists recognize the fact that if **efficient institutional arrangements** are put in place and if the right structural policies are adopted, resource abundance can become a "blessing" for the country.<sup>7</sup>

**As the country is still in the process of harnessing this potential wealth,** and its economic and social benefit for both the government and the local communities, the Government of the Islamic Republic of Afghanistan

(GiRoA) is acutely aware of both the opportunities and risks attached to the development of the extractive industries sector.

**The main challenge for policy makers is to manage expectations in the short term and build an inclusive mining sector in the long term.** Yet this is not the government's sole responsibility - mining companies, local communities, and other civil society organisations are to be part of the process and take active roles in the creation of a favourable, sustainable, and fair environment for this already key industry.

The sustainable development of the extractive industries sector therefore relies on two main pillars, which are reflected in the current areas of focus of the GiRoA:

**1 - Strong regulatory, institutional, and structural bases** - as explained in Section 3. Context, the Ministry of Mines and Petroleum (MoMP) is already reviewing the legal framework governing the extractive industries sector.

**2 - The formulation of a vision that is shared by all the relevant stakeholders, which represents the focus of the present research.**

<sup>2</sup> <http://www.adamsmithinternational.com/explore-our-work/central-asia/afghanistan/developing-afghanistans-extractives-strategy>

<sup>3</sup> Global Witness (2012). *Getting to Gold: How Afghanistan's first mining contracts can support transparency and accountability in the sector*, p.7

<sup>4</sup> The United Nations Assistance Mission in Afghanistan's (UNAMA) 2015 Midyear Report on Protection of Civilians in Armed Conflict documented 4,921 civilian casualties (1,592 deaths and 3,329 injured) in the first half of 2015, a one per cent increase in total civilian casualties compared to the same period in 2014. Civilian casualties are projected to equal or exceed the record high numbers documented in 2014.

<sup>5</sup> According to the World Bank Afghanistan, economic growth is estimated to have fallen further to 2 per cent in 2014 from 3.7 per cent in 2013 and an average of 9 per cent during 2003-12 (World Bank Afghanistan Economic Update (April 2015))

<sup>6</sup> Definition of Dutch Disease from Samuel Hall Policy Paper: 1) Natural resource exploitation leads to an appreciation of the real exchange rate, 2) This has a negative impact on manufacturing and other trade sectors, 3) As a result, economic growth decreases because of decline in manufacturing outputs and non-commodity exports. Reference: Samuel Hall (2012): Natural Resources: What Strategy for Afghanistan? Policy Paper Series, p.3

<sup>7</sup> Lederman and Malloney (2007a) wrote that "natural resources are assets for development that require intelligent public policies that complement natural riches with human ingenuity" (page 10). Frankel (2010) stated that "the Natural Resource Curse should not be interpreted as a rule that resource-rich countries are doomed to failure. The question is what policies to adopt to increase the chances of prospering."

**More details are provided in Section 2. Context.**

*Afghanistan's natural resources vision can only be developed in coordination with all stakeholders.*

## **1. DEVELOPING A SHARED NATURAL RESOURCES VISION**

The formulation of a shared vision takes on a special significance in Afghanistan due to the extractive industries sector's potential contribution to the local and national economy and potential as the catalyst for structural transformation. In addition, the risks are heightened in Afghanistan due to the sector's potential to generate insecurity, corruption, and fiscal instability.

The first step to the formulation of this vision was foreseen in the Tokyo Mutual Accountability Framework (TMAF), which commits Afghanistan to the *"development of an Extractive Industries Development Framework (EIDF) that governs Afghanistan's natural wealth through an accountable, efficient and transparent mechanism which builds upon and surpasses international best practices."*<sup>8</sup>

**The EIDF will therefore embody Afghanistan's 'natural resources vision'.** Although it is still in infancy, its objective will be to foster a transparent, equitable and optimal exploitation of minerals and hydrocarbons to underpin broad-based sustainable growth and socio-economic development. **It will establish the principles by which Afghanistan will develop the sector** and can be crucial to **strengthening the social contract** and rebuilding Afghans' confidence in

the formal state.

Broad-based consultations and enhanced governance rules will be play a central role in the formulation of this vision. The World Bank's *"Innovative Approaches for Multi-Stakeholder Engagement in the Extractive Industries"*<sup>9</sup>, explains that in recent years, researchers in the extractive sector have recognised a need to place stronger emphasis on the governance dimensions of resource extraction. Multi-stakeholder dialogue and problem solving are seen as powerful ways to overcome complex governance challenges in the sector. Dialogue and cooperation —and the trust they build— can serve as a foundation for efforts to promote good governance and take a pre-emptive approach to preventing corruption. Stakeholder engagement programmes are able to help channel the potential impact of extractive industries away from fuelling conflict and toward sustainable development. In order to develop Afghanistan's shared vision, the MoMP has committed to hearing from a wide range of stakeholders throughout the country and to receiving their input and advice on how Afghanistan should best develop its natural resource sector (mining, oil and gas). The next subsection provides more details on the background and objectives of this research and how it may contribute to the formulation of a shared vision.

<sup>8</sup> Source: <http://www.cfr.org/afghanistan/tokyo-mutual-accountability-framework/p28675>

<sup>9</sup> World Bank, (2013), *Innovative Approaches for Multi-Stakeholder Engagement in the Extractive Industries*, Extractive Industries for Development Series #29

## 2. OBJECTIVES OF THE NATURAL RESOURCES NATIONAL STAKEHOLDER ENGAGEMENT

The present National Stakeholder Engagement aims to provide the Ministry of Mines and Petroleum (MoMP) with a robust set of citizen and organizational feedback to refine its natural resources vision, the Extractive Industry Development Framework (EIDF), and strategic planning process.<sup>10</sup>

The MoMP and its partners have chosen to use an international best practice guide, the Intergovernmental Forum for Mining<sup>11</sup>, as a basis for the development of the EIDF. This research aims to refine this set of guidelines or, domesticate them, based on the

findings made during the Stakeholder Engagement and in consultation with the policy directorates. Key tenets of the EIDF will then be incorporated in relevant national visions, policies laws, regulations, standards and procedures. This research is also part of a wider initiative to increase communication and engagement across Afghanistan on this subject, the results of which will be used to inform the government of how these resources are managed going forward.

The **overarching objective** of the EIDF National Stakeholder Engagement is therefore to streamline the *Mining Policy Framework* at the national level through a multi-stakeholder consultative process.

The subsequent research objectives of this study are the following:

### Research objective 1:

To map stakeholders' expectations and perceptions regarding the natural resources sector development.

### Research objective 2:

To involve the stakeholders in the development of Afghanistan's natural resources vision by collecting their views on what should be the government's priorities to develop the sector and the EIDF.

### Research objective 3:

To ensure buy-in from a broad range of stakeholders and foster collective national ownership to guarantee continuity beyond electoral cycles.

## 3. RESEARCH METHODOLOGY

The below diagram presents the overall structure of the research conducted for the EIDF National stakeholder engagement.

To frame the analysis, a desk review of past reports on the mining sector in Afghanistan was conducted for an initial context and mapping of the stakeholders. Following that, secondary research was also used to corroborate findings from the field in the final report (see bibliography). This methodology sections will delve in the research framework, quantitative and qualitative surveys conducted by the research team at Samuel Hall.



Figure 1. Overview of the methodology

<sup>10</sup> This study was commissioned by the Ministry of Mines and Petroleum (MoMP) of the Government of the Islamic Republic of Afghanistan (GIROA) through its designated agent, Adam Smith International (ASI), within the framework of a UK Department for International Development (DfID) programme of technical assistance.

<sup>11</sup> Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development - <http://www.globaldialogue.info>

### 3.1. Research framework

The main research questions for this assignment are outlined in the following table.

<b>Research objective 1:</b> Mapping of stakeholders' expectations and perceptions regarding the extractive industries sector development.		
Pillars	Questions	Sources of verification
<b>Pillar 1:</b> Accessing information	<p><b>AWARENESS</b></p> <ul style="list-style-type: none"> <li>• What is the level of awareness of the Afghans of the extractive industries sector in Afghanistan?</li> <li>• How is the extractive industries sector usually perceived in Afghanistan?</li> <li>• What are the main knowledge gaps?</li> <li>• How do people form their opinions?</li> </ul> <p><b>EXPECTATIONS, SUPPORT &amp; IMPACT</b></p> <ul style="list-style-type: none"> <li>• What are Afghans' main <b>expectations</b> and <b>concerns</b> with regards to this sector?</li> <li>• Do the <b>expected gains</b> outweigh the <b>expected losses</b>?</li> <li>• Do people generally <b>support</b> or oppose mining operations?</li> <li>• What are the underlying causes for support-opposition? What are the <b>short/long term impacts</b> of mining?</li> <li>• Are there <b>unintended/unpredictable</b> impacts on communities?</li> <li>• How to mitigate for the <b>security</b> issues around extraction and the risks of involvement of illegal armed groups?</li> </ul> <p><b>DEVELOPMENT OF THE SECTOR</b></p> <ul style="list-style-type: none"> <li>• How important is the development of the mining sector to the short- and long-term socio-economic wellbeing of Afghanistan?</li> <li>• Should the Government focus on developing a domestic Afghan mining and oil and gas sector or on bringing in international companies to develop Afghanistan's resources?</li> <li>• How can the investment climate be improved?</li> </ul>	Subjective assessments, such as: <ul style="list-style-type: none"> <li>- Perceptions surveys</li> <li>- individual interviews, group</li> <li>- interviews</li> <li>- Desk research</li> </ul>

## Research objective 2:

Involving the stakeholders in the development of Afghanistan's natural resources vision by collecting their views on what should be the government's priorities to develop the sector and the EIDF

Pillars	Questions	Sources of verification
<p><b>Pillar 2:</b> Sharing dividends</p> <p><b>Pillar 3:</b> Managing the sector</p> <p><b>Pillar 5:</b> Assuming Afghanistan's heritage</p>	<p><b>POLICY &amp; REGULATIONS</b></p> <ul style="list-style-type: none"> <li>• What are the stakeholders' views on the political, legal and policy systems that are currently in place?</li> <li>• What are the <b>current policy priorities</b>?</li> <li>• What are the <b>stakeholders' priorities</b> for future policy developments?</li> <li>• Is the process of <b>awarding licenses</b> in mining and oil and gas considered fair and transparent?</li> <li>• How can we create formal mechanisms that are fair, accessible and effective for all sides?</li> </ul> <p><b>GOVERNANCE &amp; TRANSPARENCY</b></p> <ul style="list-style-type: none"> <li>• Are the Government of National Unity and the Ministry of Mines and Petroleum perceived to have the capability to manage the country's natural resource wealth for current and future generations?</li> <li>• What would be the best way to make sure the right level of <b>transparency</b> is achieved?</li> <li>• <b>Financial and tax issues</b> – how to ensure the funds are not diverted or misused?</li> <li>• Who should have oversight on the contracts, mining operations, social and environmental assessments, etc.? Why?</li> </ul> <p><b>SOCIAL, CULTURAL OR ENVIRONMENTAL IMPACTS</b></p> <ul style="list-style-type: none"> <li>• Is the government perceived to have the capability to develop the nation's mineral and oil and gas assets and manage the nation's environment at the same time?</li> <li>• What are the best possible measures to reduce the negative social, cultural or environmental impacts of extractive industries?</li> </ul> <p><b>BENEFIT SHARING</b></p> <ul style="list-style-type: none"> <li>• How should the revenues be allocated?</li> <li>• How does the development of the extractive industries affect Afghan individuals and households?</li> <li>• How does the provincial development fund benefit to communities?</li> </ul> <p><b>ARTISANAL SMALL SCALE MINING</b></p> <ul style="list-style-type: none"> <li>• Would informal artisanal and small-scale mining operations benefit from being formalised and regulated?</li> <li>• What are the key risks of formalising the artisanal and small scale mining sector?</li> </ul>	<ul style="list-style-type: none"> <li>- Literature review</li> <li>- Perception surveys</li> <li>- Key informant interviews</li> </ul>

## Research objective 3:

Ensuring buy-in from a broad range of stakeholders and fostering collective national ownership to guarantee continuity beyond electoral cycles

Pillars	Questions	Sources of verification
Pillar 4: Integrating communities	<p><b>COMMUNITY ENGAGEMENT</b></p> <ul style="list-style-type: none"> <li>• How can we create channels for communication and dialogue between the government, mining companies and local communities to reduce the threat of conflicts?</li> <li>• How is the effectiveness of the Community Development Agreements perceived?</li> </ul> <p><b>STAKEHOLDER ENGAGEMENT</b></p> <ul style="list-style-type: none"> <li>• Who are the main influencers among the stakeholders?</li> <li>• How can they be further engaged on this topic?</li> <li>• What are the capacity building needs?</li> </ul>	<ul style="list-style-type: none"> <li>- Literature review</li> <li>- Perception surveys</li> <li>- Key informant interviews</li> </ul>

### 3.2. Desk Review

In order to gain a clear understanding of the proposed Extractive Industry Development Framework and its context, a desk-based review of all relevant texts was conducted in collaboration with ASI. A more contextual research phase led to the **identification of priority stakeholders**

and allowed to gather available secondary information on them. This review covered the written and spoken statements regarding the stakeholders' positions on mining policy, goals and objectives of the organizations the stakeholders represent, the position of the stakeholders within their organizations (with specific reference to the stakeholders' control over

resources), and the data on the quantity or type of resources available to them. This allowed the research team to contrast information directly reported by the stakeholders interviewed with indirect information gathered through secondary information.

### 3.3. Stakeholder Mapping

At the start of each stakeholder engagement programme, there is a stakeholder mapping (and analysis). Identifying these groups early in the process is critical to enabling the sampling frame developed and the survey instrument itself to capture the views and support of such groups.

As explained in DFID's *Tools for Development* guideline document<sup>12</sup>, Stakeholder Analysis is used in

the design and management of development programmes to identify:

- The **interests** of all stakeholders who may affect or be affected by a programme;
- Potential **conflicts** and **risks** that could jeopardise a programme;
- **Opportunities** and **relationships** to build upon in implementing a programme to help make it a success;
- The groups that should be encouraged to **participate** in different stages of the activity cycle;

- Ways to **improve** the programme and reduce, or remove, negative impacts on vulnerable and disadvantaged groups.

Stakeholder analysis throughout the life of an activity fulfils different functions at different stages. DFID explains that it should necessarily be undertaken at the **Identification**, and **Design and Appraisal** stages.

<sup>12</sup> DFID, (2003), *Tools for Development*



The present research takes place in the 'Design and Appraisal' phase of the development of the extractive sector; it will be used as a basis for design of a new strategy and risk analysis.

There are numerous methods of mapping stakeholders. These methods are well documented within the general stakeholder management literature (e.g. Clarkson 1995, primary and secondary stakeholders) and there are methods more specific to mining (e.g. International Council on Mining and Metals Community Development Toolkit<sup>13</sup>). According to these guidelines, the methods used should seek to identify those stakeholders that will have a **direct influence** in the development of a sector (or programme) and those who **can participate to raising awareness of it**.

The notions of direct influence and awareness raising are at the core of the present research. Awareness of the extractive industries sector (or

economic issues at large), in particular, is a very dividing criteria in Afghanistan, where the focus on economic development has often been shadowed by political events and citizens are often little informed of the sector. The pre-identified stakeholder groups all have different levels of awareness, expectations, and concerns for the development of the mining sector, based on the impact it will have on them, as well as means to influence it.

Therefore, for this research, stakeholders are classified in accordance with the government's outreach objectives and their level of awareness of the sector; with in mind the conflict-sensitive context of Afghanistan.

**Primary stakeholders** identified for the study are those whose buy into the new natural resources vision will be most critical, due to:

- 1 - Their ability to support the government's objectives for the

development of the sector, be it via investment, monitoring, etc., and/or

- 2 - Their ability to fuel or diffuse conflicts in relation to the natural resources sector.

They include:

- Government representatives: parliamentarians, ministries<sup>14</sup>, provincial offices, as well as agencies such as the Natural Resources Management network, the National Environmental Protection Agency, etc.
- Mining companies (and investors)
- Mining sites communities
- Civil society organisations

The **secondary stakeholders** include those who will have an impact on the overall perception and level of support for the development of the sector.

Those are influencers, multipliers, and/or recipients:

- Media
- Business and trade associations
- Academia
- General public

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### 3.4. Field Research (Overview)

The main challenge of the research was to define the right research tools for each of the identified stakeholder groups, according to their level of knowledge of the sector and private interests.

In order to overcome this challenge, the research team developed a

methodology consisting of a mix of qualitative and quantitative approaches, including focus group discussions, key informant interviews, a rapid phone-based survey, and a student survey distributed in 6 universities in Kabul. Opinions of the primary (and some of the secondary, such as media and academia) stakeholders were investigated via qualitative research and the wider public's perceptions were assessed via quantitative tools. Quantitative and qualitative research

was conducted nation wide, with an in-depth focus on 5 mining locations for the focus groups discussions.

The research tools described in the subsequent sections were developed based on the findings made during the desk review, in close collaboration with ASI.

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<sup>13</sup> International Council on Mining and Metals Community Development Toolkit: <http://www.icmm.com/community-development-toolkit>

<sup>14</sup> With the exception of the Ministry of Mines and Petroleum which were consulted separately by ASI.

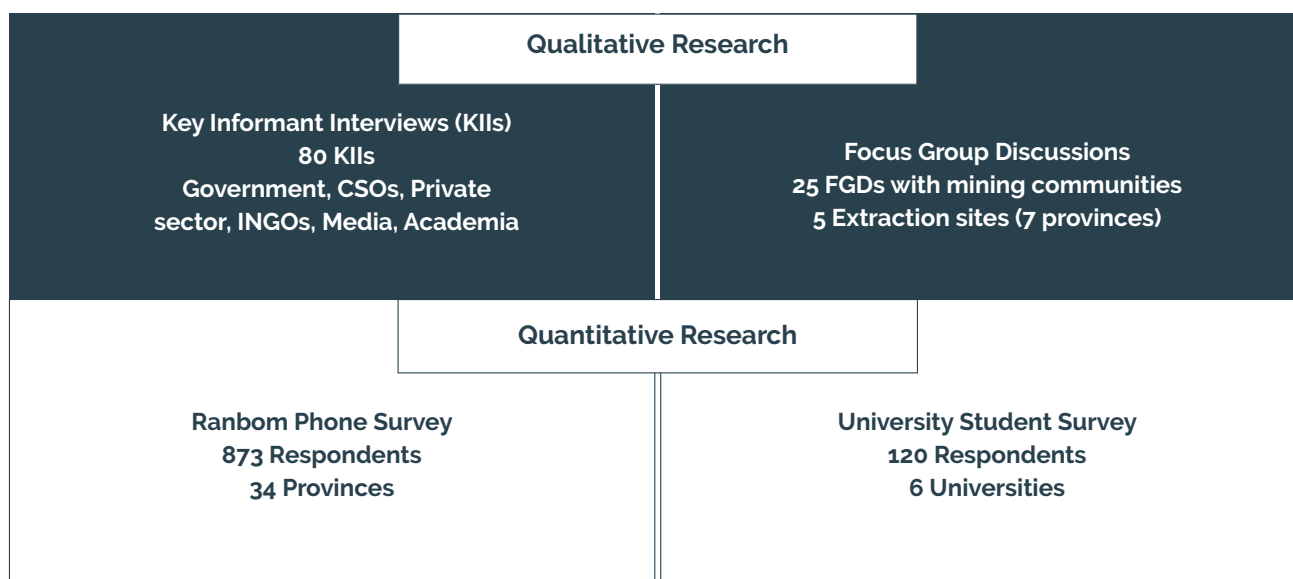


Figure 2. Overview of the research tools & outreach

### 3.5. Qualitative research

#### KEY INFORMANT INTERVIEWS (KII)

80 face to face or phone based KIIs were carried out during the research, with the following stakeholders<sup>15</sup>:

Stakeholder category	Number of KIIs
Government Officials	19
Afghan Civil Society Organisations International Civil Society	15
International Civil Society Organisations	8
Business Associations	5
Industry	4
Media	7
Academia	10
Research organisations	3
KIIs on mining sites	4
Other	5
Total	80

Table 2. Overview of the key informant interviews

<sup>15</sup> A detailed list of respondents is included in Annex I.

The objectives of these interviews were:

- To gather respondents' views on the importance of the development to the short- term development of Afghanistan;
- To identify the main areas of concern around developing the natural resource sector and level of confidence in the Ministry of Mining and petroleum to guide Afghanistan's future in this sector;
- To assess their level of understanding of the current mining laws and institutional capacity (and identify key information/knowledge gaps);
- To identify priority areas of focus on the themes included in the Mining Policy Framework; and,
- To foster national level buy-in to the process.

The key informant interviews allowed the research team to delve into more details with regards to Afghanistan's regulatory environment for the mining sector or specific issues such as transparency or security conditions. Some respondents were interviewed several times because they were in a position to clarify issues and provide additional information.

#### FOCUS GROUP DISCUSSIONS (FGDS)

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The Samuel Hall research team hosted 25 focus group discussions to explore the perceptions of targeted sub-segments of the local population with regards to the local socio-economic context as well as the exploitation of the selected sites.

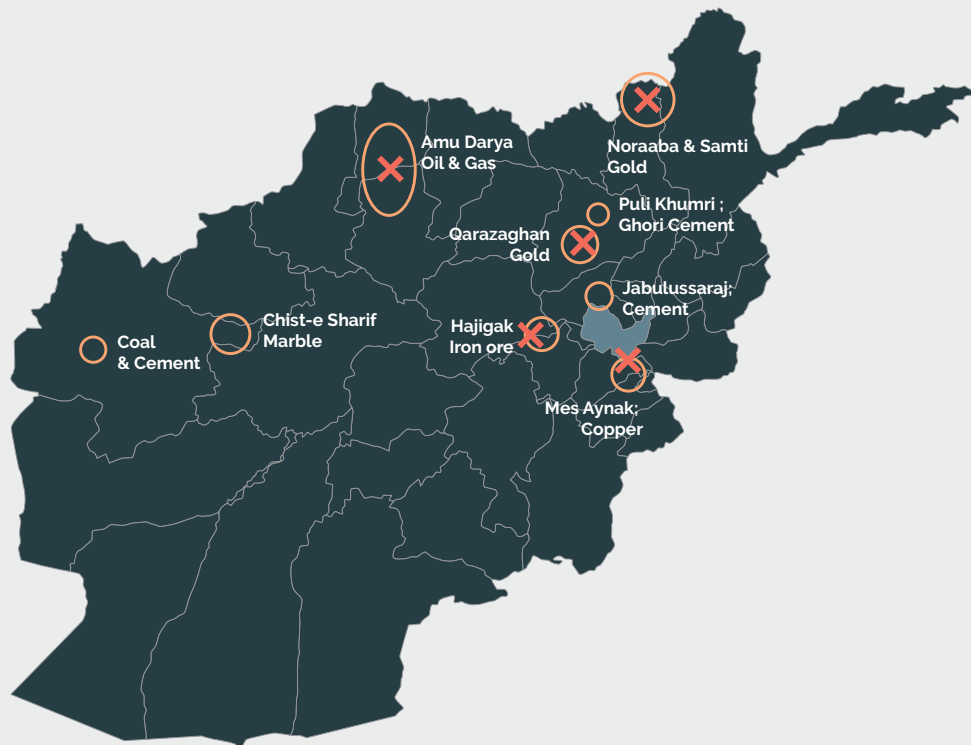


In order to get comparative qualitative data, 21 FGDs were held in the selected provinces (Jawzjan, Bamyán, Logar, Baghlan, Takhar and Wardak) and another 4 in the control province of Kabul for a total of 25 FGDs. In total, 129 respondents participated in the FGDs and they were targeted mainly to explore the opinions of sub-segments of the local population with regards to the local social-economic context. In each surveyed site, one focus group was with male respondents (randomly selected in the community and willing to participate), one was with community leaders and two were with female respondents (randomly selected in the community and willing to participate). The FGD survey locations were selected in order to capture perceptions of different communities living under different mining conditions, representing various types of commodities as well as extraction phases.<sup>16</sup>

The aim of the FGDs was to ascertain the expectations communities had with regards to extraction operations. Indeed, a recent Samuel Hall survey on community perceptions of mining in Afghanistan<sup>1</sup> showed that familiarity with mining operations is low but nevertheless everyone expects to benefit from them in some form or another, particularly in terms of jobs and infrastructure. Yet, a lack of positive impact has created a gap between expected and actual benefits. This expectation gap can present a risk to policy makers and undermine efforts to develop effective relationships between local communities and mining contractors.

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<sup>16</sup> Please refer to Annex III. for more details on the focus groups location sampling .



### SITE SELECTION FOR IN-PERSON STAKEHOLDER ENGAGEMENT WITH COMMUNITIES

Medium and large mining investments in Afghanistan have so far been limited to gold, oil & gas, cement, coal, copper and iron ore. Among these, some of the mining projects have already started their commercial operations (including Amu Darya [oil], Qarazaghan [gold], Nooraba [gold], Ghorl [cement], and Chisht-e Sharif [marble]) and others are yet to start their exploration, infrastructure development and production activities (including Aynak [copper], Hajigak [iron ore], Coal & Cement in Herat, and Jabalussaraj [cement]). These mining investments have been spread over the eastern, central, northern and western regions of the country.

In order to assess the nation-wide perceptions of communities on mining, it was imperative that the sampling of mining sites took into account the type of mineral deposits, their geographic location, and status of operations. In fact, different types of mineral deposits (fuel/non-fuel) can have mixed impact on the economic activity, environment, and local communities' perspectives. Therefore, in order to have a "representative" sample of communities, the research covered the sites of Mes Aynak, Qarazaghan, Nooraba, Hajigak and Amu Darya, which include oil & gas, gold and copper.

The aim of the FGDs was to ascertain the expectations communities had with regards to extraction operations. Indeed, a recent Samuel Hall survey on community perceptions of mining in Afghanistan<sup>17</sup> showed that familiarity with mining operations is low but nevertheless everyone expects to benefit from them in some form or another, particularly in terms of jobs and infrastructure. Yet, a lack of positive

impact has created a gap between expected and actual benefits. This expectation gap can present a risk to policy makers and undermine efforts to develop effective relationships between local communities and mining contractors. The FGD questionnaires therefore focussed on the following research areas:

- Level of familiarity and favourability to extractive operations
- Perceived impact of extraction operations
- Community decision making mechanisms about extraction operations
- Benefit sharing

## RAPID PHONE SURVEY

Considering that Adam Smith International and its partners (DFID and the MoMP) aim to use the findings and outcomes of this report for policy purposes, it was crucial to back up and corroborate the qualitative information gathered throughout the first two steps of this methodological approach (ie. Stakeholder Assessment and Qualitative Research) with quantitative information.

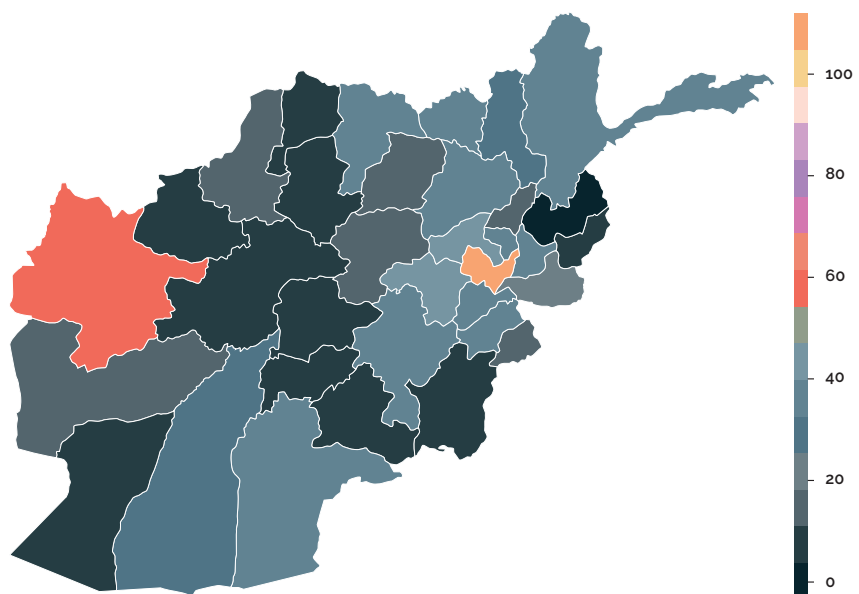
This approach did not only allow the research team to cross-fertilize both qualitative and quantitative angles but helped reach out to a wider audience. As noted by the World Bank in a publication on stakeholder identification and analysis, in many cases, the most vocal opposition to legislation can come from individuals who are outside the affected areas. Underestimating their potential influence on project outcomes may pose risks. It is therefore advisable to include groups or individuals who are not directly positively or adversely affected by the new mining framework but whose interests still qualify

them as stakeholders.

In order to glean the perspective (and gauge the knowledge) of an average voter concerning the extractive industries in their country, and to complement the qualitative aspects of the study, Samuel Hall conducted a rapid phone survey regarding attitudes and opinions with respect to the mining industry, either locally or in general.

A total of **873 randomly selected Afghan citizens answered the survey.**

Geographical distribution of the phone survey respondents:



<sup>17</sup> Samuel Hall (2014): *A Community Perception Survey of Mining in Afghanistan*, World Bank

The overall distribution of the survey respondents reflects the overall distribution population in Afghanistan (2006).

The rapid phone questionnaire was articulated around the following topics:

- General awareness of extraction operations
- Expectations with regards to the extractive industries sector
- Role of the government
- Financial benefits
- Socio-economic benefits
- Artisanal scale mining

#### UNIVERSITY STUDENT RAPID SURVEY

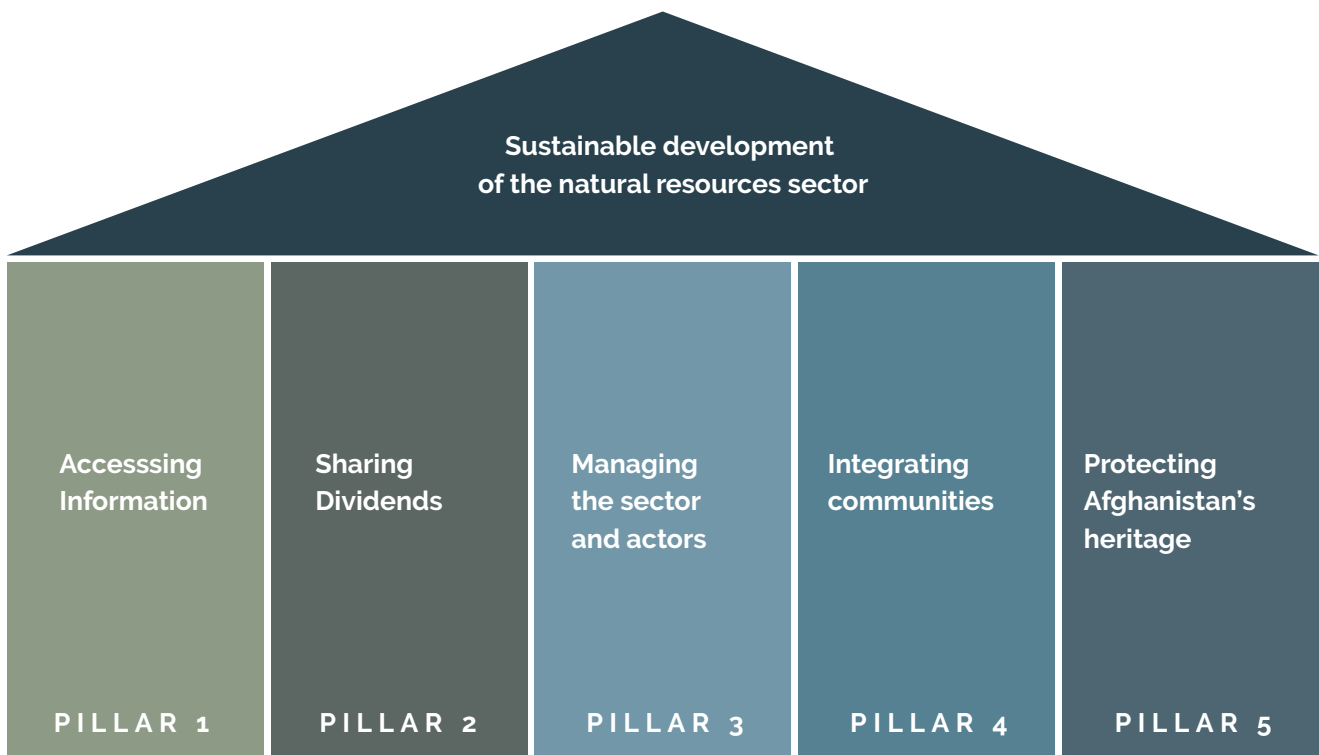
The same rapid survey questionnaire was also distributed to 120 students in economics or mining/geology from six universities in Kabul.

The following universities participated in the survey:

- Kabul University – Economics Faculty (Public University)
- Kabul Polytechnic University – Geology Department (Public University)
- Kabul University – Geology and Minerals Faculty (Public University)
- Dawat University (Private University)
- Salam University (Private University)
- Kardan University (Private University)

## 4. REPORT STRUCTURE

*The scope of the research is considerable, and many of the issues are interconnected. For clarity, the report is articulated around five pre-identified pillars which all cover some of the key themes of the EIDF.*



*The report therefore follows the following structure:*

### **Background context**

–  
This section includes detailed information about the Mining Policy Framework and the Afghan context.

### **Accessing information**

–  
This section explores the stakeholders' awareness of the natural resources sector; their expectations, concerns and support for the development of the sector.

### **Sharing dividends**

–  
This section touches upon mining revenues allocation, revenue management, and benefit sharing at local level.

### **Managing the sector and actors**

–  
This section explores stakeholders' opinions on the governance of the sector (transparency, bidding, oversight, specific concerns) as well as the current extractive industries development strategy.

### **Integrating communities**

–  
This section focuses on community consultation, Community Development Agreements, social integration at local level, and training.

### **Protecting Afghanistan's heritage**

–  
This section outlines stakeholders' views on the best possible measures to reduce the negative cultural or environmental impacts of extractive industries.

### **Conclusion and areas of opportunities**

–  
Drawing on the findings from the previous sections, this part of the report offers a final overview of stakeholders' priorities for the Afghan EIDF and suggested improvements.

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## 2. Background Context

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*This section provides an overview of the current situation with regards to extractive industries in Afghanistan, the regulatory framework and competences of the MoMP as well as the Mining Policy Framework (which is to serve as a basis for the development of Afghanistan's mining vision).*

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## 1. THE STATE OF THE EXTRACTIVE INDUSTRY SECTOR IN AFGHANISTAN

### AFGHANISTAN'S RESOURCES - OVERVIEW

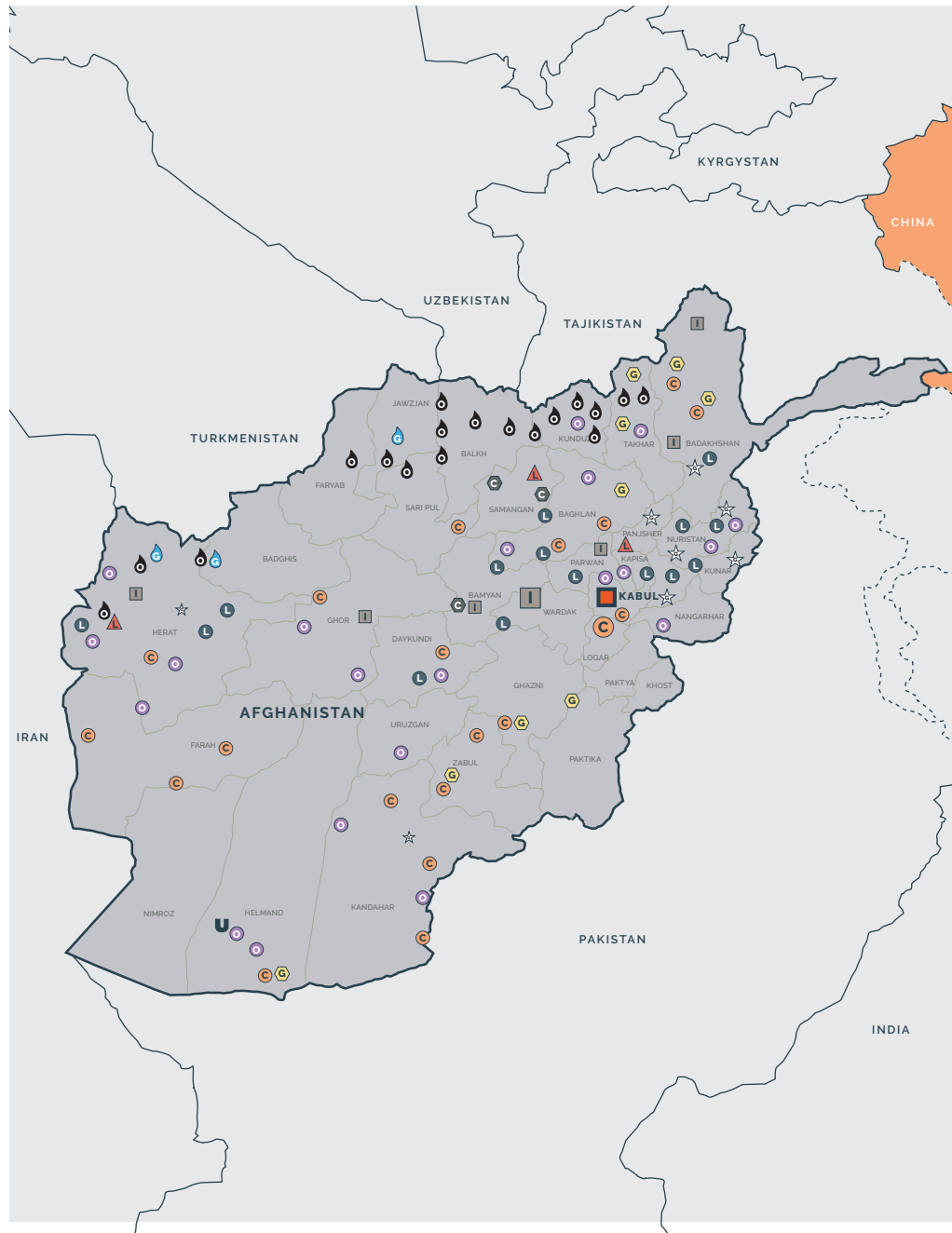
Afghanistan is rich in fuel and non-fuel minerals. Geological surveys by the US and the UK have shown that Afghanistan holds huge deposits of iron ore, copper, cobalt, gold, lithium, niobium, uranium, chromite, granite, marble and other metallic and non-metallic minerals. The deposits of copper and iron ore are some of the largest in the world, consisting of 60 and 2,200 million tonnes, respectively. The amount of lithium in Afghanistan is also significant, as official US sources have stated that Afghanistan could become the "Saudi Arabia of lithium." Surveys have also shown that there are huge blocks of oil and natural gas in northern Afghanistan. It is estimated that there are 3.4 billion barrels of crude oil, 444 billion cubic meters of natural gas, and 562 million barrels of natural gas liquids in the country. Moreover, precious and semi-precious stones such as high-quality emerald, lapis lazuli – of which Afghanistan holds the largest and unique quality reserves in the world – and ruby are found in huge volumes in Afghanistan<sup>18</sup>.

This map shows some of the potential and known mineral and petroleum deposits identified in Afghanistan to date. According to the Ministry of Mines, a survey of 30% of the country has revealed mineral resources worth an estimated \$3 trillion although estimates vary.<sup>19</sup>

A variety of reasons for this slow growth projection are put forward in the World Bank Economic Update (April 2015): The very significant fiscal crisis which revenue decline leading to financing difficulties in 2014.

The inflation drop in 2014, driven by both domestic factors and global price trends.

A variety of reasons for this slow growth projection are put forward in the World Bank Economic Update (April 2015):



<sup>18</sup> ASI, (2013), *The Strategic Environmental and Social Assessment for the Extractives Industry Sector in Afghanistan (SESA-EI)*

<sup>19</sup> Source: Global Witness, (2012), *Bolstering the Aynak contract: Afghanistan's first major mining deal*

In 2010, the US Geological Survey identified \$1 to \$3tn of mineral wealth in Afghanistan, confirming the potential of natural resources for the country's economy. The survey included significant volumes of copper, gold, iron ore, rare earth metals, and oil and gas that can generate much needed near-term income for the Afghan government and help achieve self-sustainability. Although putting a value on these resources is challenging due to the lack of precise information on the exact volumes of these resources (and vastly depends on commodity prices at a given time), the revenues are hoped to serve the Afghan economy recover from the lack of funding in the post-transition period.

Indeed, the medium-term and long-term economic development potential of the minerals and hydrocarbon sub-sectors are greater than any other sector in Afghanistan's economy. They are strongly included in the Afghanistan National Development Strategy (ANDS); along with the revenue derived from mining taxes, royalties and licensing fees: the sector as a whole is expected to boom and generate massive revenues.

The mining sector can play an important role in the Afghan economy through various channels, especially during what was called the World Bank (2012) the "transition era" (post 2014)<sup>20</sup>. First, it can be the **best source of revenue for the government** and can help Afghanistan achieve its fiscal sustainability. Natural resource rents can be best substitutes for aid and will lower Afghanistan's dependence on foreign aid. Shocks to foreign aid will less likely to leave severe

impact on the economy in the post-2014 period. Secondly, it can **significantly improve the balance of payments position of the country through boosting exports** – exports of both commodities and processed goods – and attracting foreign direct investments (FDI) in the mining sector. Thirdly, **rents from natural resources can be distributed through various social transfer programmes** or invested in specific activities that generate income to poor households and thus alleviate them from poverty. Furthermore, the mining sector may provide a **large number of employment opportunities** for both skilled and non-skilled workers in the country. Finally, natural resources may **facilitate the process of industrialization** in the country as it may encourage downstream industries and boost support activities by local SMEs (small & medium enterprises).

A successful implementation of an extractive industries policy will remain conditioned to how the government invests and allocates the resource rents, how it chooses the system of incentives to encourage investment, productivity enhancement and technological upgrading in other industries, and how the government identifies the right instruments to eliminate the sector-specific constraints and to induce the industrial take-off.

However, since the 1980s most economists have been sceptical about the idea that natural resource abundance always induces good economic performance. The literature that has emerged since then has argued that natural resource endowment can have negative impact on growth

*A promising engine of growth...*

*... only if combined with a strong institutional framework*

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<sup>20</sup> Samuel Hall, (2013), "Natural Resources: What Strategy for Afghanistan"

and development, and thus become a "curse". Empirical studies in the last three decades have investigated this fact and have found negative correlation between resource endowment and economic growth (Gelb, 1988; Sachs and Warner, 1995, 2001; Gylfason et al., 1999; Auty, 2001; Sala-i-Martin and Subramanian, 2003). Economists have also explained that natural resource abundance encourages rent-seeking behaviour in the economy, weakens the institutions, encourages corruption, damages democracy and increases the probability of civil war in the country (Collier and Hoeffler, 1998, 2005; Leite and Weidmann, 1999; Ross, 2001a,b; Sala-i-Martin and Subramanian, 2003; Isham et al., 2003; Robinson et al., 2006).

Nevertheless, economists do recognize the fact that if efficient institutional arrangements are put in place and if the right structural policies are adopted, resource abundance can become a "blessing" for the country<sup>1</sup>. Countries such as Norway, Canada, Australia, Botswana, Indonesia, Malaysia, and Chile were able to successfully exploit their natural resources and achieved strong growth and development. High-quality institutions, improved human capital, optimal diversification strategy, efficient fiscal rules, increased transparency, and effective stabilization arrangements – among other factors – may enable the country to reap the benefits of resource abundance. Lederman and Malloney (2007a) wrote that "natural resources are assets for development that require intelligent

public policies that complement natural riches with human ingenuity" (page 10). Frankel (2010) stated, "the Natural Resource Curse should not be interpreted as a rule that resource-rich countries are doomed to failure. The question is what policies to adopt to increase the chances of prospering."

#### NATURAL RESOURCES IN AFGHANISTAN IN 2015

Despite the initial enthusiasm about mining revenues, it will be many years before Afghanistan is able to reach these figures. Investors are reluctant to enter Afghanistan because of conflict, corruption, poor infrastructure, and lack of a regulatory framework that meets international norms and some question the way contracts have been awarded in the last years, with no significant returns.

More than 300 small and large-scale mining contracts have been awarded by the Afghan ministry in recent years but the **government has yet to reap the benefits of some of the large-scale mining contracts**. In remarks made at the lower house of the Afghan parliament, Wolesi Jirga, Afghan Minister of Mines and Petroleum Daud Shah Saba alleged irregularities in awarding the mining contracts to foreign state-owned firms during the era of former Afghan president Hamid Karzai. Particularly under scrutiny, are the contracts to explore the Mes Aynak Copper Mine in Logar province (thought to be one of the largest undeveloped

copper resource in the world) and Hajigak Iron Ore mine in central Bamiyan province, signed respectively with Chinese and Indian state-owned firms. None of these firms made any meaningful progress towards extraction that could have benefitted the poor country to date<sup>21</sup>. At the Senior Official Meeting (5 August 2015), the Ministry of Mines stated it was reviewing the 2014 Minerals Law "to further improve the institutional and business environment for investors" as well as some of the contracts awarded during the Karzai period.

In the meantime, extractions in those sites have been put to a halt.

**Afghanistan has also experienced a rise in insecurity** in the last years, which has made it all the more difficult to have oversight on existing (legal) mining sites<sup>22</sup>. The threat of the 'resource curse' increases the chances of Afghanistan being a haven for terrorism, transnational crime, and regional conflict. Indeed, as it is clear from the experience of many other countries, mining resources can fuel additional conflict and corruption.<sup>23</sup> Additionally, Afghanistan has experienced a **decrease in revenues generated by the extractive sector**, due to:

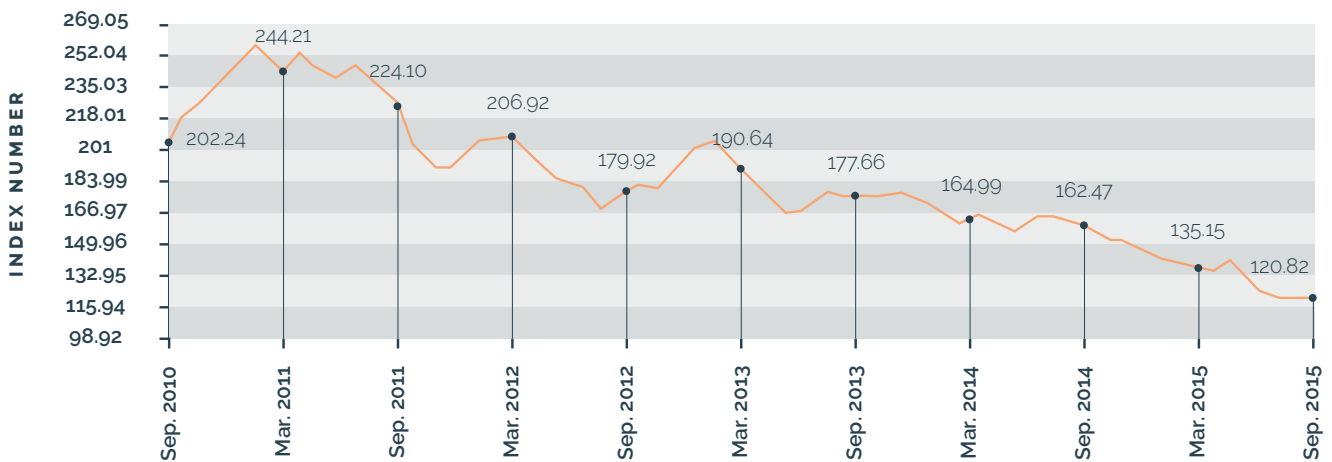
- A general decrease of commodity prices worldwide
- The government's difficulties to track revenues<sup>24</sup> – be it out of capacity issues or **illegal dealings**.

<sup>21</sup> <http://www.newsfultoncounty.com/economics/news/082366-afghanistan-minister-lashes-out-at-foreign-mine-deals>

<sup>22</sup> Lunnyie o'Donnell, (September 2015), *Afghan government accused of inaction on mining safeguards*

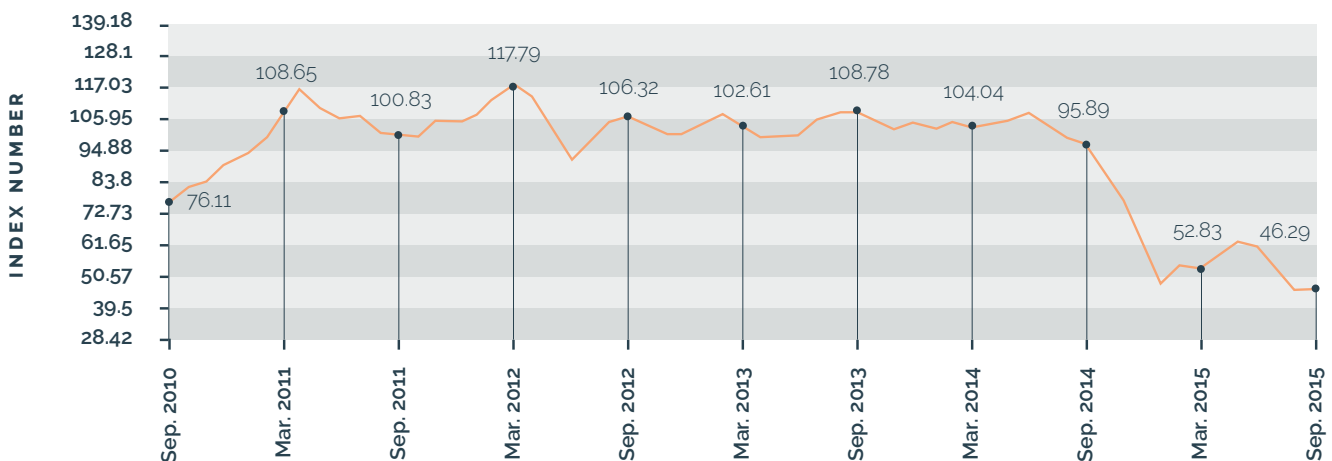
<sup>23</sup> United Nations Interagency Framework Team for Preventive Action, (2012), Toolkit and guidance for preventing and managing land and natural resources conflict. "The Afghan government will earn about \$30 million in 2015 from its mineral sector for the third straight year, far short of a previous projection of \$1.5 billion, according to Mines and Petroleum Minister Daud Shah Saba", Bloomberg, 21 October 2015.

<sup>24</sup> A USIP funded study estimated that the total lost revenues from five large mining sites, compared with their revenue potential, are more than \$50 million annually from just two revenue streams (royalty and surface rent). Javed Noorani, (2015), "Afghanistan's Emerging Mining Oligarchy", United States Institute of Peace (USIP)



**Graph 1.** Commodity Metals Price Index, 2010-2015

**Source:** International Monetary Fund (2005 = 100) - includes Copper, Aluminium, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices.



**Graph 2.** Crude Oil (petroleum) Price Index, 2010-2015

**Source:** International Monetary Fund - (2005 = 100), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

At a macro level, Afghanistan has also experienced a rise in poverty and unemployment. According to the World Bank Afghanistan (WB), political and security transition continues to hamper

the growth of Afghanistan's economy.<sup>25</sup> Economic growth is estimated to have fallen further to 2 per cent in 2014 from 3.7 per cent in 2013 and an average of 9 per cent during 2003-12.

<sup>25</sup> World Bank Afghanistan Economic Update (April 2015)

- The very significant fiscal crisis which revenue decline leading to financing difficulties in 2014.
- The inflation drop in 2014, driven by both domestic factors and global price trends.
- A protracted political uncertainty and weak reform progress. The government therefore began 2015 with a weak cash reserve position and significant arrears, while reforms to improve revenues continued to stall through the first three months of 2015.
- The fact that overall expenditures increased in 2014 due to higher security and mandated social benefit spending.<sup>26</sup>

All these parameters have led the government and the MoMP to rethink their mining strategy, drawing lessons from the past, and improve the regulatory framework as well as organizational capacity.

The **challenges** it will face to achieve these goals can be broken down into two categories:

### 1. STRUCTURAL CHALLENGES

- The government is still in a capacity building stage and has limited capacity to monitor and regulate mining operations.
- Out dated extraction techniques – Small-scale mining employing traditional extraction techniques, which significantly affect the quality of the extractive minerals, makes a significant proportion of mining activities in Afghanistan.<sup>27</sup>
- Afghanistan's lack of basic infrastructures to process and export natural resources.
- Endemic corruption<sup>28</sup>

### 2. CONTEXTUAL CHALLENGES

- Considerable security risks in remote areas. (e.g. Badakhshan events in April 2015 – see box). Insecurity is not only present on the mining sites but also on the roads throughout the country, making it more difficult to take the commodities out of the country.
- Illegal mining – Experts believe that there are currently over 2,000 illegal mines across the country.<sup>29</sup>

The set up of a fair and transparent institutional framework will be the key to mitigating those risks as well as supporting the development of the sector.

On 10 April 2015 more than 25 Afghan National Army (ANA) soldiers were killed in a Taliban attack on their military posts in Jurm district of north-eastern Badakhshan province. It is believed that the army was attacked as they were trying to intervene on an illegal mining site.

MPs from Badakhshan have bolstered the claims of local officials undermining security in the province. *"The commander of the check post sold it, so here the MPs don't have a role"* MP Neelofar Ibrahimi said. *"But if we deeply assess the roots of the issues in Badakhshan, it is clear that there is political intervention, the interference of local government and neighboring provinces and the stakeholders who are dreaming to of building mines in Badakhshan [...] these are all fundamental factors of insecurity in Badakhshan."*

<sup>26</sup> All these points are constants since 2012 – they are more the economic symptoms of structural issues, than simple trends.

<sup>27</sup> For instance, gemstones in north-eastern regions and marble throughout the country are quarried using traditional techniques including the usage of explosive materials. Even medium sized local companies engaged in marble quarrying do not use modern machinery and equipment (Rassin, 2012). As a result, despite the fact that the Afghan marble is considered one of the most high quality marbles in the world, the quality of processed marble slabs remains very poor

<sup>28</sup> Despite a renewed political will to control corruption, Afghanistan remains at the bottom of Transparency International's Corruption Perception Index (<https://www.transparency.org/cpi2014/results>)

<sup>29</sup> <http://www.tolonews.com/en/afghanistan/20176-analysts-over-2000-illegal-mining-sites-in-afghanistan>

## 2. INSTITUTIONAL BACKGROUND

### THE MINISTRY OF MINES AND PETROLEUM

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The Ministry of Mine and Petroleum has overall responsibility of monitoring all mineral deposits within the territory of Afghanistan.<sup>30</sup> It has been established to check the affairs of the mining sector as well as prepare extraction procedures and contracts for mining operations. It is authorised to grant licenses and contracts of mines to companies in Afghanistan. The MoMP is currently trying to move away from its previous role as an owner-operator towards becoming a policy maker and regulator for the extractives industry, increasing and managing investment into the country.

The ministry has the authority to approve small contracts only.<sup>31</sup> The intermediate contracts are proposed to the ministers' commission and big mine contracts go to an Inter-ministerial Commission (IMC). It also has inspection powers over the mining sites.<sup>32</sup>

The MoMP is also in charge of delivering on the Afghan's government vision for sustainable, market-based, economically successful minerals and hydrocarbon sub-sectors, in ways that benefit local communities. In an effort to encourage the development of the sector in a sustainable and equitable manner, it has established

new legal and policy frameworks that include environmental safeguards, social development and local content imperatives (such as support to local service providers).<sup>33</sup>

However, significant challenges remain in relation to the capacity of the MOMP to implement new legislation and to ensure that mining development proceeds in a sustainable manner, consistent with the best international practice.

Recognizing the difficulties and the constraints associated with the size, scale and location of large, capital intensive and complex bulk commodity projects, the MOMP has elected to pursue a multipronged mineral development strategy that takes into account lesser degrees of mining project complexity, ease of investment, non-reliance on foreign capital, and shorter-term development requirements.

In 2014, Daud Shah Saba was appointed minister of mines and recognized the **importance of clarifying the rules governing the sector** as well as refocusing on building domestic capacity in a step by step approach.

### LATEST REGULATORY DEVELOPMENTS

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The recent International Afghanistan Conference organised in Bonn

emphasized the importance of transparency and accountability for the mining industry. This interest in international best norms and practices clearly indicates a growing awareness of the importance of concluding deals in a manner that will directly benefit the Afghan people.

Transparency, stability of the security situation, skilled indigenous labour force and improved legal, regulatory and land use frameworks are the essential preconditions for attracting and building the trust of international investors. The government's efforts to implement these recommendations will be key to attracting private investment and creating a viable and sustainable business climate.

The GIRoA has already taken a number of important steps towards creating a transparent and competitive mining sector.

In 2009, it signed up to the Extractive Industries Transparency Initiative (EITI)<sup>34</sup>, which was followed by the adoption of a Mineral Law in 2010. The law was revised in 2014 and includes provisions on transparency, community development and environmental protection.

In addition, in an attempt to practically implement the process of benefit sharing, the government has established formalised Community Development Agreements (CDAs) between local communities and mining

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<sup>30</sup> Constitution of Afghanistan, Article 9

<sup>31</sup> This includes: Reconnaissance License, Small-Scale Mining License, Artisanal Mining License. See Mineral Law of Afghanistan 2014, Article 7, Section (1)3

<sup>32</sup> See Mineral Law of Afghanistan 2014, Articles 8, Section 3

<sup>33</sup> See Mineral Law of Afghanistan 2014, Articles 89-92, Article 111

<sup>34</sup> See reports on Afghanistan's participation in the Extractive Industries Transparency Initiative (EITI), <https://eiti.org/Afghanistan>

companies, which outline a contractual and binding obligation between the interested parties.

However experts are still cautious as, according to some<sup>35</sup>, the Mineral Law still lack adequate safeguards against corruption and are likely to facilitate the creeping control of the sector by armed groups, oligarchs, and monopolies that could threaten the state. Furthermore, a few aspects remain untouched such as the provisions for dispute resolution or the details on bidding procedures and the requirement to publish all large Minerals Development Contracts.

The next step is to adopt a new natural resources vision, the **Afghan Extractive Industry Development Framework**, in order to foster a transparent, equitable and optimal exploitation of minerals and hydrocarbons to underpin broad-based sustainable growth and socio-economic development. As mentioned in introduction, EIDF will be largely based on IGF Mining Policy Framework but subject to a 'domestication process'. Key tenets of the EIDF will then be incorporated in relevant national visions, policies laws, regulations, standards and procedures.

### 3. THE INTERGOVERNMENTAL FORUM ON MINING, MINERALS, METALS AND SUSTAINABLE DEVELOPMENT (IGF) MINING POLICY FRAMEWORK

The Members of the IGF developed the comprehensive Mining Policy Framework (MPF) in 2010. The MPF is a compendium that Forum members have identified as leading practices for exercising good governance of the mining sector and promoting the generation and effective management of benefits in a manner that will contribute to sustainable development.

The *Mining Policy Framework* is therefore a blueprint for achieving developmental goals from mineral resources. Its principals, goals, objectives, and action plan are fully endorsed by the *Inter Governmental Forum* on mining, the leading global intergovernmental policy forum on mining and sustainable development. Its members included OECD and developing countries from

across the globe and the Framework has universal application. It represents the commitment of the IGF members to ensuring that mining activities within their jurisdictions are compatible with the objectives of sustainable development and poverty reduction.

The Extractive Industries Transparency Initiative (EITI) was launched in 2002 at the World Summit on Sustainable Development in South Africa, and endorsed by the World Bank in 2003. It includes multiple stakeholders such as governments, companies, investors, international organizations and Civil Society Organizations (CSOs) that aim at improving transparency and accountability in the extractives sector by promoting revenue transparency and establishing a robust yet flexible methodology for monitoring and reconciling company payments and government revenues at the country level.

An independent audit is responsible of collecting the government's data on payments from extractive industry companies and company data on payments to government. Whenever discrepancies are detected, the civil society will intervene to demand explanation from the government and the private companies.

<sup>35</sup> Global Witness, (2015), POLICY BRIEFING: Afghanistan and the extractive industries; Javed Noorani, (2015), *Afghanistan's Emerging Mining Oligarchy*, United States Institute of Peace (USIP)

The IGF Policy framework covers the following areas:

**1 - Legal and Policy Environment -**

The mining legislative regime should provide clear lines of responsibility and accountability, which are the foundation of good governance and contribute to sustainable development in all aspects of social and economic life.

**2 - Financial Benefit Optimization -**

Taxes and royalty revenues derived from exploration, mine development and mining are to be collected and put to work in support of the sustainable development of the nation.

**3 - Socio-economic Benefit**

**Optimization** - Natural capital should be converted into human capital to ensure sustainable outcomes from mining activities.

**4 - Environmental Management -**

The management of the natural resource base within ecosystems is the continuous responsibility of any society seeking to become more sustainable.

**5 - Post-mining Transition -**

A mining operation which is considered consistent with sustainable development is one whereby planning for closure is present during the entire operation of the mine.

**6 - Artisanal and small scale mining (ASM) -**

Artisanal and small scale mining is a complex and diversified sector that includes poor informal individual miners seeking to eke out or supplement a subsistence livelihood, to small-scale formal commercial mining entities that can produce minerals in a responsible way respecting local laws. It is therefore crucial to enhance the quality of life of those miners working outside of the legal framework and to enhance their contribution to sustainable development.

This international set of best practices provides a useful basis for the development of the Afghan extractive industry but there is no one size that will fit all countries. A **domestication process** is necessary and will be facilitated through the formulation of a set of principles for the development of the sector.

The following sections explore Afghan stakeholders' perceptions and expectations in relation to the extractive industries sector as well as their views on some of the principles laid out in the MPF.

order to reach this objective, first we must map the level of awareness, concerns and support of the various stakeholders. Then we must assess how they see they think the benefits should be shared and the sector managed for it to reach its full potential. Lastly, we need to understand how communities can be involved/integrated/buy in to participate to (and not hamper) this growth.

An additional angle of analysis was added to these four main research axes based on a finding made during the study, which revealed high levels of concerns for the protection of Afghanistan's heritage (historical and environmental).



Mining Policy Framework - IGF	Realising Self Reliance - NUG	EI Sector Value Chain	Mineral Value Management - WEF	Africa Mining Vision	STEEP
Legal and Policy Environment	Legislative and Regulatory Framework	Award of Contracts and Licenses	Procurement and supply of goods and services	Mineral sector governance	Policy Environment
	EITI	Regulation and Monitoring of Operations		Geological and mineral	
	Institutional Capacity			Building human and institutional capacity	
Financial Benefit Optimisation	Fiscal Regime	Collection of taxes and Royalties	Fiscal Flow (tax, royalties, levies and fees)	Fiscal Regime and Revenue Management	None
	Revenue Stabilisation and Investment funds	Revenue Management and Allocation			
Socio-economic Benefit Optimisation	Transparency and Accountability	Implementation of Sustainable Development Policies and Projects	Employment and skills development	Environmental and social issues	Social Issues
Environmental Management	None		Social cohesion, cultural and socio-economic		
Post-Mining transition	Infrastructure		Environmental dimensions	Environmental and social issues	Environmental Issues
	Diversification through upstream, downstream and side stream opportunities		Linkages, diversification, beneficiation and downstream industry	Linkages, investment and diversification	Economic Issues
	Regional Economic Cooperation		Enabling resource-based infrastructure for broad-based development		Technological Issues
Artisanal and Small Scale Mining (ASM)	Formalising the Informal mining sector	None	None	Artisanal and small-scale mining	None

**Table 3.** Thematic Comparison of Afghan and International EI Sector Development Frameworks<sup>36</sup>

<sup>36</sup> Source: Adam Smith International (August 2015)

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# 3.

## Accessing Information

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*Accessing and sharing information about the development of the natural resources sector is of significant importance:*

- a -** It is people's democratic right to be informed of the development of the country.*
- b -** It is a political obligation for the government – Afghans should be informed of the economic choices that are made and engage the destiny of the country.*
- c -** It is a participative and consultative way to understand citizens' expectations in order to gather support for a common project rather than a unilateral political choice.*

*This section presents the mapping of stakeholders' perceptions of the natural resources sector development by exploring their:*

- **Awareness** of the natural resources sector*
  - **Expectations, Concerns & Support** for to the development of the sector*
  - **Opinions** on the **development of the sector***
-

## KEY FINDINGS

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- **Out of almost 1,000 survey respondents, only 11% said they knew of Afghanistan's natural resources** either well, or fairly well. The rest is a half split between those who had just heard of them or did not know of them at all. Awareness of natural resources is also somewhat superficial at mining communities level.
- **Expectation gap** - The general public has very high expectations for the development of the sector (they expect to see jobs, roads, clinics, general infrastructures but also political benefits for the unity of the country) but those living close to mines claim they have yet to see those benefits happen in practice. Experts expect the sector to have long term development impacts as well but say it will largely rely on both the regulatory framework and the political will to do it right at government level. There is a risk of a gap between the individual expectations at a macro level and the effective outcomes of the development of the natural resources.
- **Concerns** are mainly related to the protection of the environment and cultural heritage but also the worsening security conditions during qualitative interviews.
- **The perceived potential positive effects of the sector still seem to outweigh those concerns** - people realise that, in today's challenging political and economic context, natural resources and efficient extractive industries are the only possible way-out. This balance remains fragile; on the longer-run, political decisions will have to be transparent, consultative, and equitable enough to reinforce people's positive views towards the Afghan mining sector.

## 1. AWARENESS OF THE NATURAL RESOURCES SECTOR

This sub section answers the following research questions:

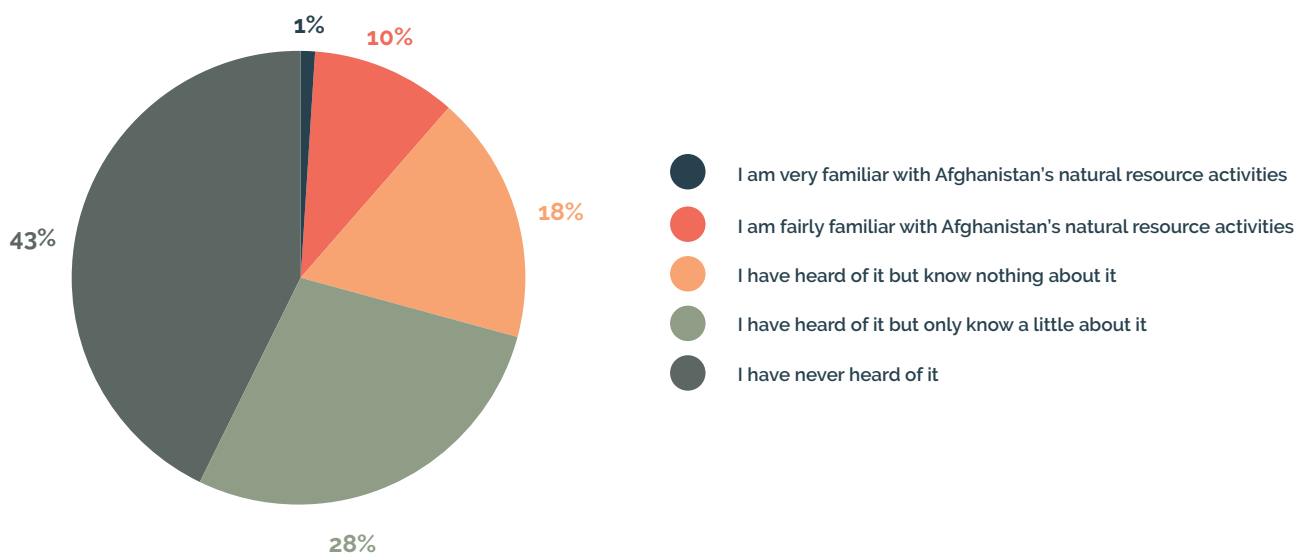
- What is the level of awareness of the Afghans of the extractive industries sector in Afghanistan?
- What are the main knowledge gaps?
- How do people form their opinions?

While 96% of the Afghan provinces are gifted with natural resources that are exploited at a more or less important scale<sup>37</sup>, **only 11% of the total survey respondents said they were familiar with Afghanistan's natural resources activities**. One-fourth of respondents **declared having never heard** of mining activities in Afghanistan at all, whilst 28% said they had little to no information about it.

Amongst the 56% of the respondents that stated they knew of the natural resources sector, or had at least heard of it, only 40% said there were natural resources activities in their region. This indicates that, **even when respondents knew of the existence of natural resources activities in Afghanistan**, they were still poorly informed on the subject, as they do not know that mining activities are likely to be occurring in their own province.

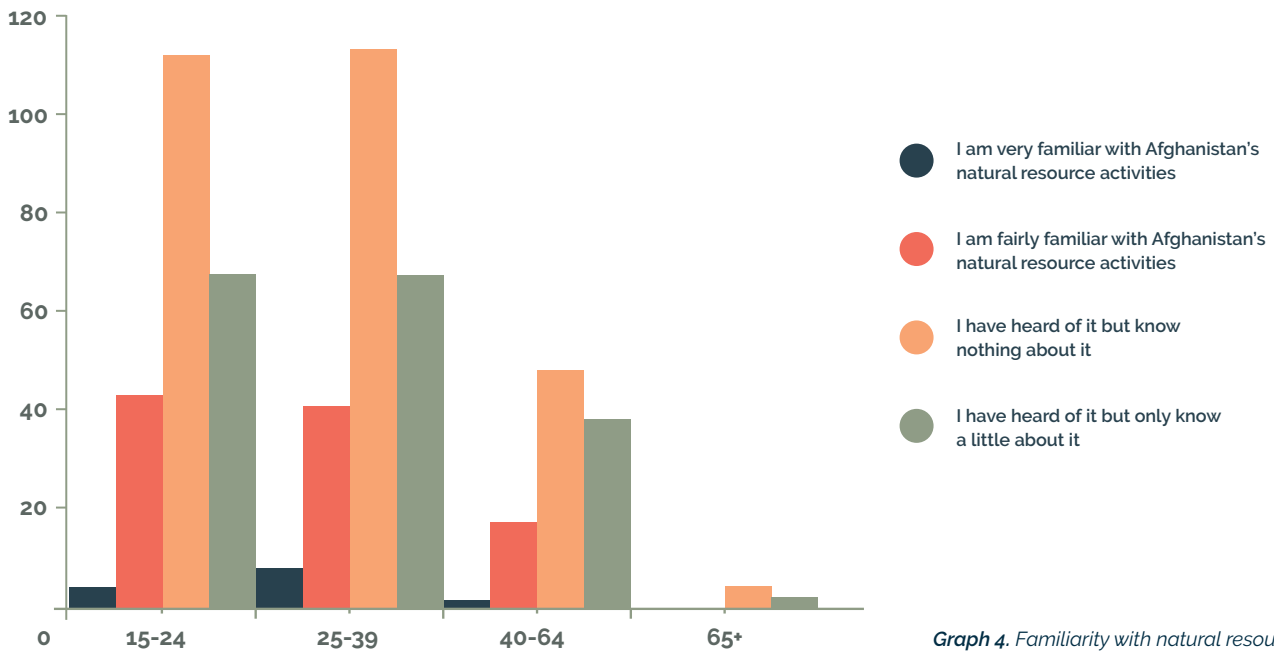
Two demographic parameters are worth highlighting:

- 1 - The level of familiarity with the natural resources activities decreases with age, as 75% of the respondents that were the most familiar with the natural resources sector were less than 40 years old.
- 2 - Only one-fourth of female declared knowing of natural resources activities which shows there is a gender gap in the level of awareness and access to information on the sector.



Graph 3. Do you know about natural resource activities in Afghanistan?

<sup>37</sup> <http://mines.pajhwok.com/article-categories/34-provinces-mines-info>



**Graph 4.** Familiarity with natural resources activities in Afghanistan by age group (among those who knew of mining)

Amongst the survey respondents who had stated they did not know of the natural resources sector (43% of the total sample), **72% declared having never heard of natural resources activities neither via the media nor from their surroundings.** Only 28% of the respondents said they were not interested in the topic. This may confirm that the lack of access to information on natural resources is the main reason behind low levels of awareness of the respondents.

The lack of general public awareness was also a recurring theme during the key informant qualitative interviews, especially amongst the media and civil

society organisations (see box on the right). Several reasons were put forward to explain this wide knowledge gap such as **the lack of awareness raising activities from part of the MoMP or the irregular media coverage of the issue.**

Although almost all participants in the **focus group discussions** were aware of the presence of natural resources activities in their area, the depth of their knowledge varied greatly. About **one fifth had only a very basic idea about the on-going operations** and one third of respondents directly voiced their desire for further and better information.

*"The public does not know what we have and don't have (and what are the necessary steps, phases, to develop the sector). There should be a platform/ website showing what we have, with credible figures and clarifications around the facts related to the development of the sector, how it works, etc. with the support of a specific natural resources communication strategy."*

Tofo News Representative

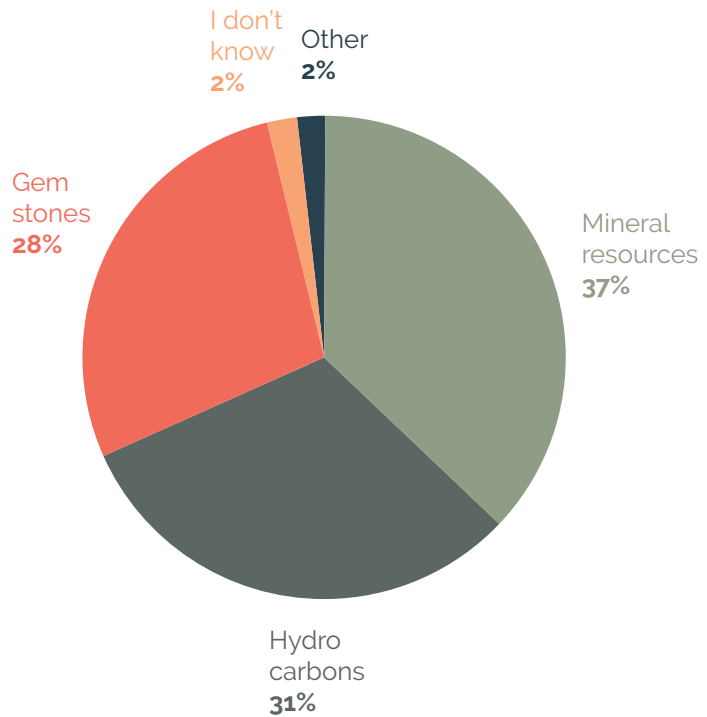
*"We want all the information about this. Who extracts the mine? How will they extract the mine? Which things are being extracted? And we want this information through workshops and seminars for women."*

Female, Aynak village, Mohammad Agha District, Logar Province

TYPES OF RESOURCES KNOWN OF

Mineral resources such as marble, gold, lithium, iron and copper are the natural resources respondents are most aware of (regardless of their province of origin), followed by hydrocarbons such as oil and gas.<sup>38</sup>

Gemstones, precious and semiprecious stones were the third most known natural resources, especially among the respondents from the northern areas of the country, where lapis lazuli, emeralds, emeralds, ruby, tourmaline and kunzite can be found. Precious and semi-precious stones are well-known resources in those regions, where they been mined continuously for over 6,000 years (in Badakhshan), for example. Gemstones are often seen on local markets and their trade has been **linked historically to the development rural and urban communities in those regions.**



Graph 5. Which type of natural resources have you heard of?



Mes Aynak archeologists

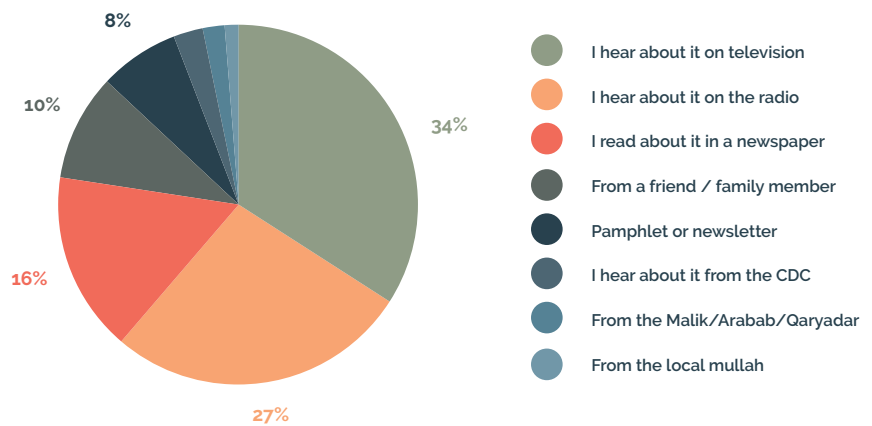
This clearly explains why respondents from these provinces appear to be better informed than others on which resources are available in their region, as highlighted by a socio-economic expert: "At this stage, oil, lithium or copper are still intangible and abstract to most people, including decision-makers. There are multiple reasons to that. Firstly, their exploitation has barely started; secondly, these commodities cannot be seen on the market, as they need to be transformed, processed first, whereas precious stones, for instance, are consubstantial to the Afghan history and identity."

<sup>38</sup> Amongst the respondents that stated they knew or had heard of the mining sector (57 of the total quantitative sample).



## SOURCES OF INFORMATION

85% of the respondents who had at least heard of the natural resources sector, declared using principally television, radio and the newspapers as sources of information about Afghanistan's natural resources.



Graph 6. Where do you generally hear/read about Afghanistan's natural resources?

**The media is also the main source of information on the economic situation** of the majority of the respondents who were unaware of natural resource activities, although radio came as a first source of information for them, instead of television.

This indicates that the general public's level of awareness of the natural resources sector will largely depend on whether the mass media channels will cover the issue. The media coverage has been however sporadic in the last year.

Media representatives explain this phenomenon by two factors:

- Less activity around the sector was noticed – no large contracts were signed nor new high impact cases (such as when the Mes Aynak case) occurred.<sup>39</sup>
- Heightening security issues and questions around the government's ability to control the country have taken the front scene in the news in the last months.

*"The problem is the newsworthiness of the topic, which has declined since the new government came to power. (...) There are also more newsworthy stories at a political level happening now so our coverage this year is far less normal. We are focusing on the political situation, security, the government, etc. Economic issues will be marginalized for another year. Probably until after the parliamentary elections."*

Tolo News Representative

<sup>39</sup> [http://www.nytimes.com/2012/12/23/opinion/sunday/chinese-led-copper-mining-threatens-afghan-buddhist-monasteries.html?\\_r=0](http://www.nytimes.com/2012/12/23/opinion/sunday/chinese-led-copper-mining-threatens-afghan-buddhist-monasteries.html?_r=0)

In a past report on community perceptions of mining<sup>40</sup> Samuel Hall found that **sources of information about mining at community level tend to be personal rather than media-based** (newspapers) or through mass media channels (television and radio). 34% say that they have seen the mine site in person, 14% heard about it from the Community Development Councils (CDC), 13% through a friend and 7% through general word of mouth.

#### KNOWLEDGE GAPS

The main knowledge gaps found during this research on 'awareness' were the following:

- The general public has a very low level of awareness of natural resources and what exactly can be found in Afghanistan.
- Communities are often aware of the presence of mining operations but almost half of the respondents had little to no precise information about them.

- At expert level (key informants), many respondents had little awareness of the regulatory framework or government's development strategy.

All these aspects are investigated in more details in this report.

## 2. EXPECTATIONS, CONCERNS AND SUPPORT

This subsection answers the following research questions:

- What are Afghans' main expectations and concerns with regards to this sector?
- Do the expected gains outweigh the expected losses?
- Do people generally support or oppose mining operations?
- What are the underlying causes for support-opposition? What are the short/long term impacts of mining?
- Are there unintended/unpredictable impacts on communities?
- How is the extractive industries sector usually perceived in Afghanistan?

### 2.1. Expectations

96% of the informed survey respondents and a large majority of the key informants as well as focus group discussions participants stated that **Afghanistan's mineral, oil and gas assets will be positive for the country**. They all expect some sort of benefit from it.

The foreseen positive effects of the mining sector are the **reduction of unemployment** (an immediate short term consequence), but also the **improvement of education** and the creation of additional business opportunities (which suggests that the general public and students – in particular – have longer-term expectations).

Furthermore, a sizeable number of respondents believed that the development of the natural resource

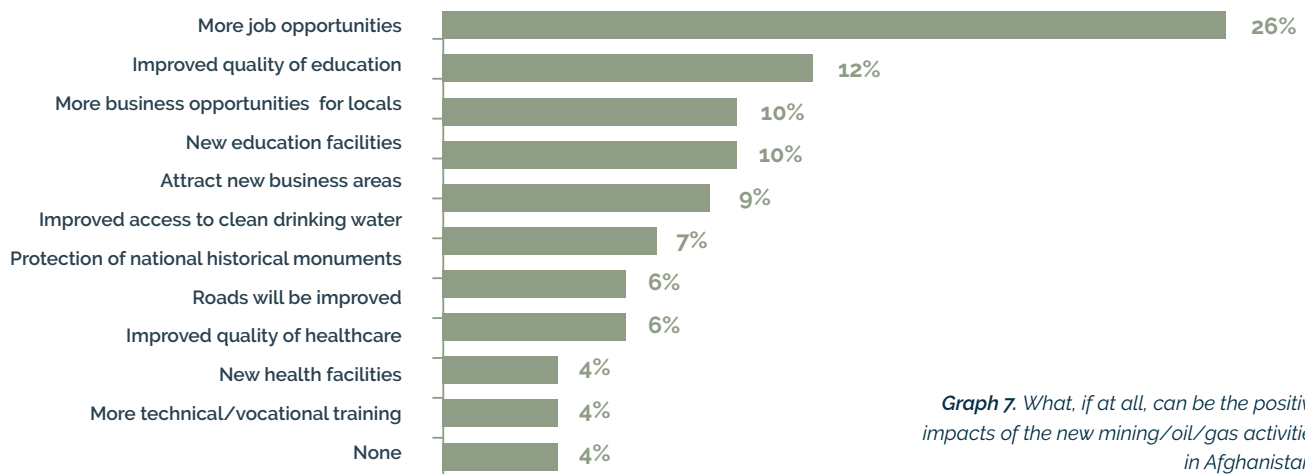
sector would also positively impact the quality of their livelihoods as well as play a **key role in poverty alleviation**.

Some survey respondents declared for instance that the development of the mining sector could result in the improvement of the quality of social services and health facilities.

Villagers also expressed longer term expectations with regards to the potential benefits the development of the mining sector beholds: "All people in this village (...) agree with the extraction operation and will support it. Because once the work on it starts it would last for several years, and people would have a more long lasting job which is good for them." (Male, Hajigak, Hese Awal Behsood). Additionally, some focus groups respondents thought that the development of the sector would **reduce emigration trends** from their village.

<sup>40</sup> Samuel Hall (2013): *A Community Perception Survey of Mining in Afghanistan*, for the World Bank





**Graph 7.** What, if at all, can be the positive impacts of the new mining/oil/gas activities in Afghanistan?

Most natural resource sector **experts** similarly viewed the potential for job creation and reducing poverty as the main positive impacts of the development of the sector. They also cited potential improvements in the field of security, education, and stability as potential positive outcomes. They were however more cautious and explained that these positive outcomes were long-term wishes and **highly dependent on the preliminary development of an improved institutional and regulatory framework.**

Several communities insisted on the potential poverty alleviation effect of the development of the natural resources sectors but most of them were, either part of the control group (Kabul), therefore not living in the vicinities of mining operations, or still waiting to see tangible results from upcoming mining operations in their region but remained optimistic.

**The public's expectations are therefore very high for the sector, hoping for spill over effects on other sectors, and achieving strategic and longer-term objectives.**

However, previous reports and focus group discussion findings (see box on the left) suggest that this has not always (or yet) been the case for those with experience of mining operations in their region. **The lack of perceptible impacts from mining operations – particularly positive impacts – creates a significant gap between expected and actual benefits.**

One of the findings made during the World Bank study on mining (2013)<sup>41</sup>, was that *"Experience of mining operations – either due to proximity or because the mines have been operating for some time—generally leads to cynicism. (...) Only 7% of people who live in villages near to the mine site say that their lives have improved."*

*"I have positive feelings, all the mines of the country should be extracted and they should use the benefits of the mines the development of the country."*

Female, Chehelsetoon village, Kabul province

*"the extractive operation didn't have any positive effects, (...) all of its outcome were negative. They didn't do anything for themselves and nothing for us too. They didn't implement social works"*

Male, Alukh Toghani, Dushi

*"I agree with the extraction of this mine because our poor and miserable people can at least somehow benefit from it. If we don't benefit from it, maybe another poor and miserable person will. So it should be extracted, because our country's situation isn't good and it may help it improve it."*

Female, Alukhtoghay village, Baghlan province

*"All participants agreed that until now no one had benefited of the extraction of mines and none of the workers was from their own village."*

Female, Qodogh, Chah Ab

<sup>41</sup> Samuel Hall (2013): *A Community Perception Survey of Mining in Afghanistan*, for the World Bank

## 2.2. Concerns

If the mining sector carries a lot of hopes of progress and development, many stakeholders voiced concerns around its potential negative impact on a variety of side aspects.

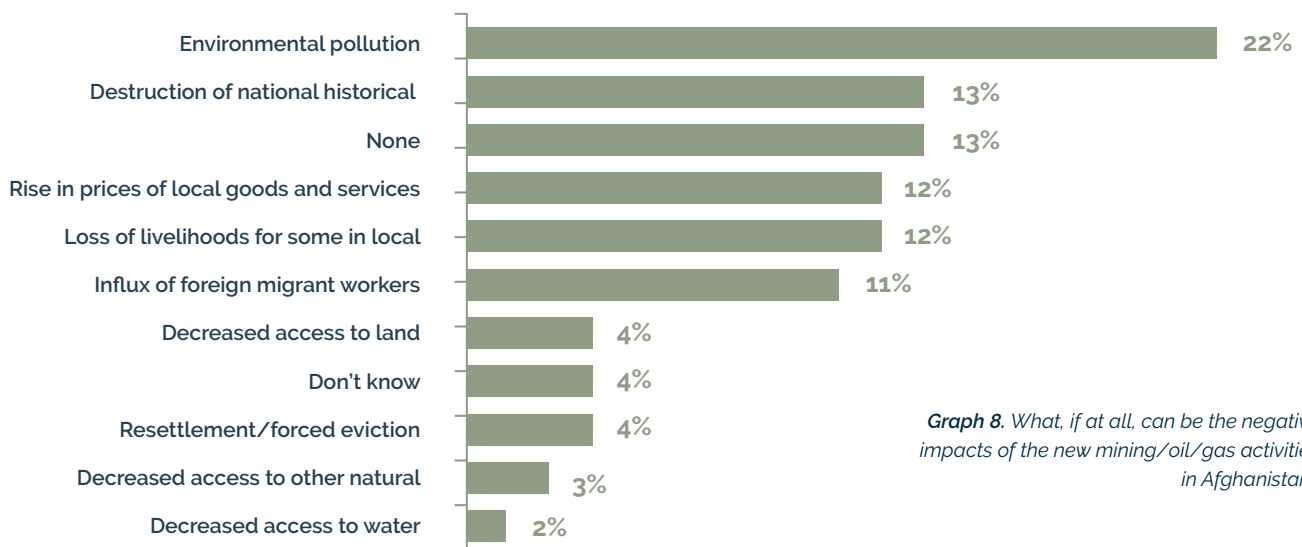
As illustrated in Graph 8, survey respondents were particularly concerned with the potential environmental damages the development of natural resources activities might generate, its impact on the preservation of the national heritage as well as on inflation in the country.

This is especially true for the youth (as shown in Table 4), who also fear that it may negatively impact the local population's livelihoods as well as attract an important influx of migrant workers.

The cited economic factors (livelihoods, inflation, migrant workers) reflect the actual risks assessed in other mining countries (such as Mozambique, Somalia, Nigeria).<sup>42</sup>

A significant proportion of respondents (13% of the 'informed' group) however thought there would be no negative consequences to the development of the sector, which an expert of Afghan

natural resources explains by the hopes raised by the sector: *"it is not only that people consider that the pros will outweigh the cons or that they will be zero negative consequence. In fact, people realize that, in today's challenging political and economic context, natural resources and efficient extractive industries are the only possible way-out. In this regard, national and international stakeholders cannot fail: without transparency, security, good governance, accountability, the mining sector will not be able to deliver on its promises. And the gap between the Afghan population and the political elites or representatives beyond any help"*



**Graph 8.** *What, if at all, can be the negative impacts of the new mining/oil/gas activities in Afghanistan?*

<sup>42</sup> Sala-i-Martin, X. and A. Subramanian. (2003): *Addressing the Natural Resource Curse: An Illustration from Nigeria*. Mimeo. International Monetary Fund

Stakeholder category	15-24	25-39	40-64	65 +	Total
Environmental pollution	10	8	4	-	22
Destruction of national historical monuments	5	6	2	0	13
None	4	6	3	0	13
Loss of livelihoods in local communities	5	5	2	0	12
Rise in prices of local goods and services	5	5	2	0	12
Influx of foreign migrant workers	6	3	2	-	11
Resettlement / forced eviction	2	1	1	-	4
Decrease access to other natural resources	1	1	1	-	3
Decreased access to water	1	1	0	-	2
Decreased access to land	1	2	1	0	4
Don't know	1	2	1	0	4

**Table 4.** Negative impacts of the development of the natural resources sector (% by age group)

Focus group participants expressed additional concerns around the effects natural resources activities might have on the **overall security situation**. A view shared by key informants, unless certain regulatory standards and mechanisms were met.<sup>43</sup>

*"the security situation of the community deteriorated because of the mines. We have seen negative changes, Talibans pay more attention to our area because of the presence of strangers and government employees."* (Female, Aynak village, Logar Province).

Communities' perceptions of the negative effects of mining operations were often based on **negative past experiences** or **future concerns** as well as a **lack of confidence** in the government's ability to protect their interests:

*"No assistance nor help have ever been received by the people of these villages. In the past they promised to distribute gas to us, we installed gas pipes with our own personal money, but then they refused to provide us the gas. The agricultural lands and farms which are near the mines have been destroyed but neither the government nor the extraction company paid compensation for it."* (Male, Shakarak village, Jawzan Province)

*"People whose houses are near mining area are worried whether the mining company or the government will pay compensation for those who are affected by extraction operation. This is a matter that all people of the village are worried about because the government never does what they promise to poor people."* (Male, Aynak village, Logar Province)

This demonstrates that in several areas, mining companies are accused of not having kept their promises and destroying lands, gardens or water irrigation systems without compensating the villagers. Additionally, workers were often not recruited among the villagers but came from other districts and provinces, which is not only seen as a missed opportunity for the villagers but as an additional factor of insecurity: "Most of the people in this area don't have surrounding walls for their houses that is why they wanted the workers to be from their own area, in order not to have strangers in the village." (Male, Qara Zaghan village, Baghlan province). Respondents furthermore worry that **mining operations will not benefit the whole community** but only its more powerful or wealthy members.

<sup>43</sup> Please refer to **Section 5. Managing the sector and actors** for more information on views about the impact of the natural resources sector on security conditions.

The **preservation of national historical monuments** also seems to be a shared concern among all categories of respondents, survey respondents, and focus groups participants alike, as illustrated by the following statement: "before they start their work they should make a survey of the historical sites, because they shouldn't be destroyed due to extraction operations. They have to be careful about them, because they are our historical and cultural heritage." (Male, Hajigak village, Wardak Province). The level of awareness of this particular potential risk may be stemming from what happened in Mes Aynak, which created a precedent the population is well aware of.

Additional concerns were identified during the key informant interviews such as the rise in corruption and illegal mining (which are explored in more details in Section 5. Managing the sector and actors).

Yet, as demonstrated in the next section, the **perceived potential positive effects of the sector still seem to outweigh those concerns** as a majority of stakeholders (especially amongst experts in the mining sector and communities) are in favour of developing the sector immediately. Such a positive balance remains fragile and may be more related to the sense of urgency of attaining economic self-reliance; on the longer-run, political decisions will have to be transparent, consultative, and equitable enough to reinforce people's positive views towards the Afghan mining sector.

### 2.3. Importance of developing the mining sector

Importance of the mining sector in comparison with other sectors

All survey respondents were asked for their views on the sectors needing improvement to achieve development in Afghanistan, in general. The aim of this question was to:

- a - identify the sectors they believed were the main pillars to improve the living conditions of the population and lead to economic recovery,
- b - assess the relative importance of the development of the natural resources sector for them, in comparison to other sectors.

As demonstrated in Table 5, findings made on the entire survey sample revealed that:

- Most respondents focused on social welfare; infrastructure; security and economical development.
- The development of the natural resources sector was seen as the lowest priority amongst the sectors that would have the most positive impact on Afghanistan's development at large.

When answers from those who had heard of Afghanistan's natural resources are separated from those who had not, priorities remain similar but the former category puts more value into the development of the natural sector. The natural resource

sector remains however the last or second to last choice, still slightly below the agriculture sector. These figures suggest that people favour direct and tangible impacts over longer-term ones, as pointed out by an expert of the natural resources sector (former DFID): "After five centuries of conflict and forty years of modern war, Afghans are not likely to release the prey for the shadow. While the development of natural resources might lead to a general improvement of infrastructures, social services, and other economic sectors, people always favour short-term benefits over virtual longer-term ones. In other words, having a road tomorrow is better than hoping for a highway the day-after-tomorrow. It is not being short-sighted, it is being pragmatizing"

Stakeholder category	Heard of Afghan natural resources	Have not heard of Afghan natural resources
Building infrastructures	25	24
Improving social services	23	26
Improving security conditions	22	21
Supporting the agriculture sector	10	9
Setting up pro poor programmes	9	10
Developing the natural resources sector	9	3
Don't know	1	7
Other	1	0
Base	1695	1077

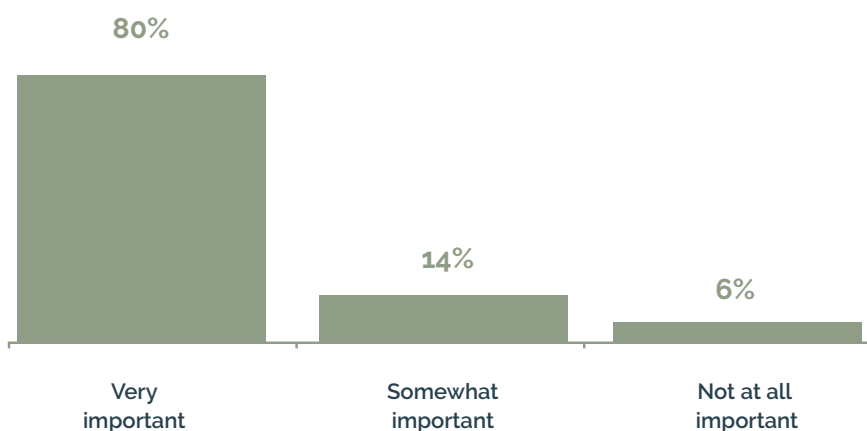
Table 5. Comparing views on priorities for Afghanistan's development (%)

### VIEWS ON THE DEVELOPMENT OF THE MINING SECTOR

'Although it ranked amongst the lowest priorities for Afghanistan's development in the previous question, the natural resources sector is still almost unanimously considered as an important sector for the Afghan economy (amongst the informed respondents). Given that only 20% of this sample stated that they knew very or

fairly well of natural resources activities, this indicates that **8 respondents out of 10 believe in the importance of this sector while knowing very little about it.**

The widespread recognition of the importance and potential of the mining sector for the future of the country as a whole was also very clearly stated at community level, during focus group discussions, and by key informants.



Graph 9. According to you, how important is the mining sector for Afghanistan's economy?

*"I agree with the current extraction operations because they will benefit is all Afghans."*

Male, Aynak village, Logar Province

*"The mining sector is extremely important for a sustainable economy of Afghanistan and the government of Unity should give priority to the development of natural resources otherwise our country will remain poor and underdeveloped."*

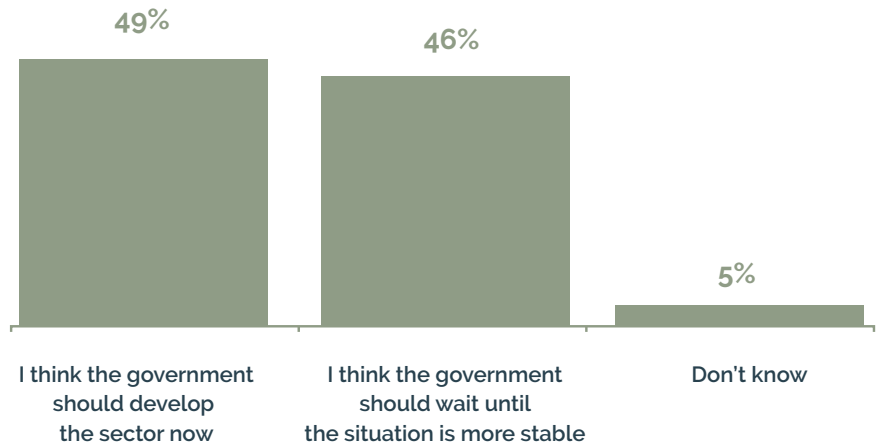
Green Organization of Afghanistan

These quotes demonstrate that stakeholders put an emphasis on unity and benefits for all. Natural resources are therefore perceived as a conduit for peace and political union, even more than for the economic development of the country.

## 2.4. Favourability to the immediate development of the sector

Despite the widespread level of awareness of the potential benefits of the sector, only half of the survey respondents said they were in favour of seeing the development of the sector start now.

This may indicate either a **level of mistrust in the current government's ability to manage this sector or concerns over the worsening security situation in the country.**



Graph 10. Do you think the government should leave Afghanistan's natural resources in the ground until the situation is more stable or develop it now?

At community level, the sense of urgency for the development of the sector is greater. *"everyone in this area agree with the extraction of the mine. If the work on it starts properly and on time, it will be benefit all Afghans."* (Male, Yara Zaghan Village, Baghlan Province)

Despite a widespread recognition that current security and capacity conditions were not optimal for the development of the sector at large, all key informants thought it was urgent to start developing it nevertheless. They insisted however that the current **capacity, security and transparency** levels were not suitable for the development of large-scale projects (unless they were located in secured areas). The NGO representatives feared Afghanistan may face similar fates as Angola and Nigeria and that the full-scale development of natural resources at this time might be proved as a curse to Afghanistan.

Although they acknowledged that the first few years of operation might be problematic, they believe that it was the best way for Afghan actors in the field to build capacity and be in a position to manage their resources independently in the medium term. Civil society (such as Integrity Watch Afghanistan, Global Witness, etc.) agreed that the mining sector should be further developed but supported a **step-by-step approach**, within a transparent framework and with the objective of controlling illegal mining sites as a priority.

In general, the majority of stakeholders agreed that the MoMP should **increase the number of small mining projects, legalize and control the illegal ones and strengthen their capacity for medium scale mining projects.** The distinction and nuances between these types of operations and their impact on the economy are analysed in more details in Section 5.3. Development strategy.

In conclusion, although the current situation carries many uncertainties and risks, **the alternative option of waiting for it to improve before developing the extractive industries sector is seen as being more detrimental** than making efforts to work in this direction. Many see the natural resources sector as one of the ways to achieve self-reliance as foreign aid decreases.

The next sections explore how exactly the stakeholders would like to see the sector develop.



	Positive	Negative
AWARENESS	<p>People have information about this mine and they talk about that, they say it is iron mine.</p> <p>All people know about it. Two years ago they have given some information to us about this mine and extraction operation on it. They even said that those houses which are destroyed because extraction operation, government will buy their lands and will pay them its cost.</p>	<p>We know that there is extractions going on and we also know that its gas but that's about it. The mine has been there since the generation of our grandfathers - but they have never been there, nobody from the village works there. We don't know when it is extracted and who is doing it.</p> <p>People know about the mine, know that it extracts gold but they don't have information about the size of this mine and the duration of work on it.</p>
EXPECTATIONS	<p>There have been no positive changes until now but if the extraction is developed, it may have positive changes in the community. Maybe our streets will be asphalted, school and clinic be built, we might have electricity and all the people would benefit from these positive changes similarly.</p> <p>We agree with mining extraction here and all over the country because it may bring job opportunities for the people and its benefit will go to the treasury of the government. We want them to asphalt our street, make the electricity and build protecting walls.</p>	<p>Generally, we disagree with extraction of the gas, because we don't benefit from the gas they extract here, we are still living in old method, we go to deserts to collect firewood.</p> <p>I think mining operations have negative effects because the security situation isn't good and the government can't control it properly.</p> <p>We are afraid of the future of the mine. If they took our houses and farming lands, we would have nothing else to live of.</p>
IMPACT	<p>Yes, the mine has positive impacts because some people are working there and we can buy stones at a very cheap price.</p> <p>Some people are impacted positively. The school is built, the walls along the street are built and some people are work there.</p>	<p>It has negative impacts, first, because it is illegal and the people extract in difficult conditions where they can get killed and injured, and second because of the noises made by extraction.</p> <p>All participants agreed that untill now nobody had benefited pf the extraction of mines and none of the workers was from their own village. All of them were worried about the environment and security. They said Nooraba is becoming a wreckage, and work on mines should be stopped and mines to be left as they are.</p>

*Table 6. Sample of comments made by focus groups discussion participants*



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## 4. Sharing Dividends

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*Mining projects in developing countries are increasingly expected to deliver sustainable benefits to local, regional, and national stakeholders. This subsection provides more details on how stakeholders envisage the distribution of the benefits stemming from the development of the sector. It touches upon:*

- **Mining revenues allocation** – *Should the revenues go into a development fund (as recommended by the EITI and the Mining Policy Framework)? Should they go to the central or provincial budget?*
- **Revenue management** – *Is the current system optimal?*
- **Benefit sharing at local level** – *How should the 5% provincial development funds be allocated?*

*Previous research demonstrated that:*

- 1** – *Most people expect improved economic opportunities from the mining sector.*
- 2** – *People expect mining revenues to be spent on high-impact, tangible benefits in their local areas.<sup>44</sup>*

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<sup>44</sup> Samuel Hall (2013): *A Community Perception Survey of Mining in Afghanistan*, World Bank

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## KEY FINDINGS

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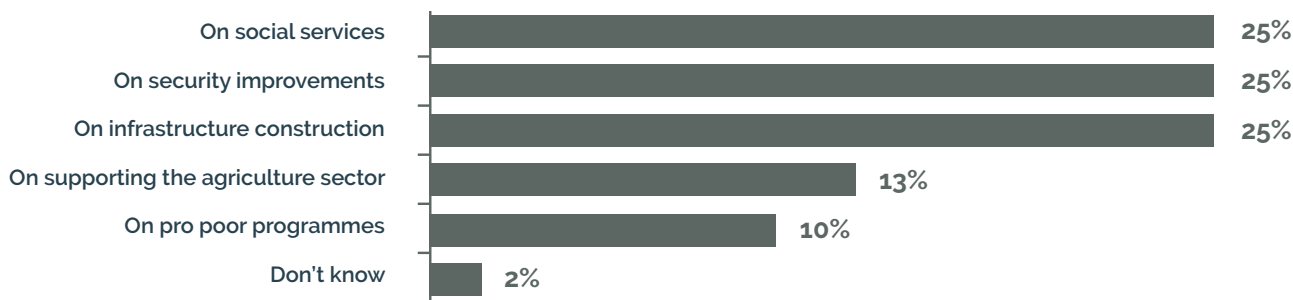
- There is a large consensus over the fact that **mining revenues should be collected and managed at central government level** (by the MoF) as well as allocated to poverty alleviation at large (social services, infrastructure development) as well as security improvements. People living in the vicinities of mining sites however expect to see specific local development programmes being implemented. In the medium term, a sovereign fund should be set up for the sustainable development of the sector.
- Setting up **more reliable (and computerised) accounting mechanisms** and the EITI transparency requirement of earmarking the mining revenues on a specific transparent account should be given priority in order to improve the current financial management system.
- Little is known on how **the provincial development funds** will be allocated but it should be governed by strict rules, in consultation with the civil society and communities.

## 1. ALLOCATION OF MINING REVENUES

This subsection investigates stakeholder perceptions on the allocation of extractive industries revenues.

As illustrated in Graph 11, a majority of respondents believe that the mining revenues should be reinvested to achieve long-term development

objectives be it at micro-level with the improvement of social services, meso-level with the upgrading of national infrastructures or macro-level with the improvement of the security situation at large.



Graph 11. How do you think the central government should spend mining revenues?

The development of the mining sector is contingent to the development of the infrastructures and the improvement of the security, which partly explains why an important number of respondents declare that revenues should be reinvested in these areas. However, the vast majority of respondents still prioritize spending the revenues from mining in education, health as well as programs targeting the most vulnerable confirming that **poverty alleviation remains the main expected outcome from the development of the mining sector.**

Findings from the focus group discussions show similar results, as most respondents expected the mining operations to have a positive impact on social services and infrastructure development. They thought however that the funds were to be turned

**into development projects for their communities first**, as demonstrated in the quotes on the right hand side.

Additionally, a majority of respondents agreed that they wanted the benefits of the **mining activities to go to the treasury of the government first before coming back to them in the form of development projects.**

Indeed, although international best practice recommends that natural resources revenues are allocated to the sustainable development of the sector,<sup>45</sup> most key informants indicated that, in the context of Afghanistan, where development needs should be considered at large and are most pressing, the revenues should go, at least in the first instance, to the **national central budget.** That is, provided the initial transparency measures on separating the accounts in the first

*"We want the benefits of the projects to flow into the treasury of the government and come back to us as development projects for developing our community."*

**Female, Qalai Angor Bagh Kamari, Bagرامي**

*"We have many expectations towards the companies and the government, they should build the roads and avenues, bring electricity and I think this is the responsibility of the government. The interests of the mines should flow into treasury of the government and come back with development projects in the area. The companies can help the people directly and indirectly."*

**Male, Aynak, Mohammad Aagha**

*"First make the mine legal. Then, revenues of the mine should go to the government and then come back to the village through government projects (clinic, electricity, roads, plumbing etc.)"*

**Male, Kamary Dana, Bagرامي**

<sup>45</sup> Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development - Mining Policy Framework - <http://www.globaldialogue.info>

instance are fulfilled. Amongst key informants, there was also a large consensus that the revenues should be used for poverty alleviation and job creation but also investment in education, skills development in the extractive industry sector.

**In the medium term however, many thought that the revenues generated by the natural resources sector should be allocated to sustainable development of the sector.**

Additionally, civil society organisations are in favour of the creation of a

'green budget account', which would be purely allocated to ensuring a stable environmental protection plan as well as the allocation of a percentage of the revenues to the Ministry of Culture, or UNESCO, or the DAFA to carry out environmental and archaeological studies.

## 2. MANAGEMENT OF NATURAL RESOURCES REVENUES

By its own account, the government is facing difficulties in collecting mining revenues. This subsection investigates views on ways to avoid funds being misused.

Stakeholder comments on revenue management revolved around two main areas:

- a- How the revenues are accounted for; and,
- b- Who should be in charge of managing the revenues.

### *Accounting and tracking mechanisms*

Stakeholders' main concerns related to accounting regarded transparency and financial **management**:

#### LACK OF TRANSPARENCY OF MINING REVENUES

At present, the mining revenues are collected by the revenue department of MoF, where they are merged with the rest of the national revenue, making it difficult to track them. **There is a general call for a transparent mechanism for the collection and management of revenues from the mining sector.** This mechanism is also part of the EITI requirements. While acknowledging that some of the EITI requirements needed adjustments for Afghanistan, many deplored the fact that those pertaining to revenue management were not yet met nor sufficiently backed up at a political level.

#### FINANCIAL MANAGEMENT

The natural resources revenue management system was deemed inefficient for the following reasons:

- **Out-dated revenue collection systems at provincial and central level** - a computerized system is recommended to track mining projects by licenses, commodities, provinces, companies, and monitor the revenues.
- **Insufficient tracking of the payments made by license holder<sup>46</sup>** - some respondents stated that several mining operations had not filed any financial reports nor submitted any technical data in over 10 years but were entirely ignored by the government. On the other hand, others reported that the records of some companies, who had shared their data with the MoF and had documentation to prove, were not present in the EITI reports. This, to them, indicates that the system for the revenue collection system is either corrupted or not able to keep track of such information.

<sup>46</sup> Stakeholders also acknowledge that a large share of revenues is lost due to illegal mining, not only faulty accounting mechanisms. This comment regards revenues collected from legal mining.

## GOVERNMENT'S ABILITY TO COLLECT AND MANAGE THE FUNDS

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There are mixed opinions with regards to the current government's capacity to manage the funds. Respondents justify the lower levels of confidence in the government by its (self-confessed<sup>47</sup>) inability to control illegal mining and exports. These, to them, demonstrate either a **lack of capacity at ministerial level, either a lack of political will to improve the conditions.**

In conclusion, according to the key informants, the first priority should be the set up of accurate accounting mechanisms. Additionally, most (especially civil society organisations but also government officials and private sector representatives) supported the set up of a single transparent account for all mining revenues in the state budget, as foreseen by EITI. This is seen as an effective anti-corruption measure as well as a way to ensure a better management of the funds.

*"I do not think that government would be able to have control over the revenues because if we look at the current situation, most of our mines and other natural resources are being extracted and smuggled out to other countries and they don't do anything about it."*

**Organisation for Sustainable Development and Research**

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## 3. PROVINCIAL DEVELOPMENT FUNDS

Article 84 of the Mining Law states the following: *"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 wealth fund, to the economic, social and environmental development purpose of the province or provinces where the Mines are located."* However, many stakeholders, particularly the civil society, said the government had provided no clarity on how the 5% development fund would be allocated nor planned for any formal mechanisms for community consultation on this issue.

One of the challenges for the fund allocation is how to define communities that are affected by the mining operations. An important point that must be considered by policymakers is an equal distribution of benefits to the surrounding communities regardless of the provincial boundaries and dominant ethnicities. For example, the Hajigak iron ore deposit is situated in Bamyan along with the boundary with Wardak province. The government should make sure that social benefits of the project are equally distributed to the communities on both sides of the provincial boundary. Failing to do so, unequal distribution of benefits to communities in the two provinces may lead to social discontentment and unrest.

Additionally, several mining sites are located in remote areas where there are no communities in the surroundings that can be considered as being affected by the mines. Lastly, within communities, people are more or less affected by mining operations according to their wealth and position within the community.

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<sup>47</sup> Mines and Petroleum Minister Daud Shah Saba declared in an interview: "Unfortunately we have failed to well manage and well control our mining sector (...) With the current fragile and messy situation, it's really hard to say when Afghanistan should expect any profits from it." Bloomberg, 21 October 2015.

Common views are that:

- the **fun**ds should be managed at a **central level**, rather than provincial;
- **strict allocations** should be foreseen from the very initial stages of the projects; and,
- the design and selection of the projects to be funded should be left to communities, via **participative planning** through a local mining development council

Civil society stakeholders insist that the design and selection of projects to be funded are left to communities and mine development councils which are representative of all age, gender, ethnic representation, etc., and effective monitoring mechanisms are set up in parallel.



# 5.

## Managing the sector and actors

*Afghanistan is facing an exceptionally high risk of resource related abuses which can only be avoided or mitigated by the set up of international gold standard for legal and regulatory protections (and maybe innovating beyond that) as well as a sustainable development strategy.*

*The development of the sector and avoidance of the 'resource curse' will largely depend on how it is managed. This subsection provides more details on stakeholders' views on the following topic:*

### GOVERNANCE OF THE SECTOR:

- *What are the stakeholders' views on the political, legal and policy **systems** that are currently in place?*
- *What would be the best way to make sure the right level of **transparency** is achieved?*
- *Are the Government of National Unity and the Ministry of Mines and Petroleum perceived to have the **capability** to manage the country's natural resource wealth for current and future generations?*
- *Is the process of **awarding licenses** in mining and oil and gas considered fair and transparent?*

### STRUCTURAL AND CONTEXTUAL CONCERNS, INCLUDING:

- *Illegal mining*
- *Corruption*
- *Security*

### THE EXTRACTIVE INDUSTRIES DEVELOPMENT STRATEGY:

- *How can the investment climate be improved?*
- *Should the Government focus on developing a domestic Afghan mining and oil and gas sector or focus on bringing in international companies to develop Afghanistan's resources?*

## KEY FINDINGS

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### GOVERNANCE:

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- The government, operating according to strict legal/regulatory and institutional framework, can have a direct impact on the structural issues and an indirect impact on security. The current framework's main weakness is its lack of transparency, which does not provide for enough safeguards against some of the endemic issues Afghanistan is facing (corruption, illegal mining, and indirectly, security). Publication of contracts should be the focus.
- The bidding process would be considered as more fair and efficient with reinforced technical assessments, the development of model contracts, the set up of legal penalties for preferential treatment and simplification of the awarding mechanisms.
- Government oversight is weak in this sector and stakeholders call for more coordination at institutional level. Their confidence in the government's ability to develop the sector is hampered by the perceived lack of political willingness to 'clean up' the sector.

### ILLEGAL MINING:

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A distinction should be made between illegal artisanal scale miners (which can be brought back into the system, with easier procedures) and medium to large-scale illegal operations. The drivers for illegal mining are the macro-economic situation, the lack of state sovereignty and complicated regulatory conditions.

### INSECURITY:

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Insecurity is both an obstacle to the development of the sector (and driving investment) and a consequence of existing mining operations. However, private sector stakeholders are particularly affected by corruption, at central, provincial, and local level, where they exploit the mines and certain legal provisions that hinder their confidence in the building of a long term partnership with the state. They need more legal certainty and protection of their assets.

### DEVELOPMENT STRATEGY:

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There is a debate on the development strategy for the sector. If the government and many local actors support a step-by-step approach in order to slowly build local capacity, others argue that large-scale mining will only ever be manageable by large companies and should be developed now and support a cross-fertilizing strategy. The sustainable development of the mining industry should rely on a system by which short-term/small-scale and long-term/large scale approaches would not be in competition. Efforts should be made to bring back ASM miners back into the system. The support to micro to medium scale mining sector carries important local development potential.



# 1. GOVERNANCE

The set up of a fair and transparent institutional framework is the first pre-requisite to mitigating the risks that are inherent to the sector as well as supporting its development.

Although most stakeholders recognised that the 2014 Minerals Law brought a number of improvements to the regulatory framework and welcomed (civil society organisations and media in particular) the launch of a contract review by the government, they also felt that the law still did not offer enough protections against the risks inherent to the development of the sector ('resource curse', corruption, etc.).

Reforming the laws and regulations is an element that should take place towards the very start of that process.

**Transparency provisions especially are seen to not require much government capacity but are, more than anything, reliant on political will.**

When discussing the upcoming EIDF and its related governance standards, stakeholders wished to see the following topics tackled in priority:

- Transparency
- Bidding
- Oversight and enforcement of the rule of law

## 1.1. Transparency

**Reinforced transparency** measures are the main priority for civil society organisations as well as government representatives and media. To them, this is key to tackling some of the structural (corruption, illegal mining) and contextual (insecurity) issues the sector is presently facing.

The current system is seen to be lacking transparency in many ways, be it at bidding, contract awarding or revenue collection level. The contract publication requirement inserted in the 2014 Minerals Law<sup>48</sup> for instance, has only been partly implemented so far. Few contracts have been published and **no legal consequences** were foreseen in case of non-publication. There are also concerns around the implementation of the EITI requirements, which seem to be lacking.

### PUBLICATION REQUIREMENTS

Many of the stakeholders' recommendations revolve around publication requirements, in particular in the following areas:

- **Publication of all extractive contracts** – publication within a certain number of days after the signature of the contract should become condition to its legal validity in order to ensure this requirement is fully enforced.
- **Publication of project-level production and payment data** – this recommendation goes beyond what is foreseen in the EITI but is

considered a key tool to making illegal mining, tax avoidance and theft of revenues more visible.

- **Publication of beneficial ownership and penalties for hidden ownership** – excluded individuals should be clearly defined, including a wider named group of Politically Exposed Persons (PEPs).

The rules and information should also be made accessible to the public via the MoMP website as well as general mining data.

### EITI COMMITMENT

Experts would like to see the government's commitment to EITI reiterated in the Minerals Law as well as the EIDF.



<sup>48</sup> Article 23(6): The Ministry of Mines and Petroleum shall publish the terms and conditions of any Minerals Development contract, and other ancillary agreements within ten (10) days after entering into such Minerals Development Contract. Minerals Law (2014)

## BIDDING

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Transparency (and fairness) was also at the core of the comments on the current bidding process. Stakeholders would like to see increased transparency during all phases of the procedure (for all types of mining, including small and medium projects), that is:



### Before a contract is awarded:

- **More information should be made available on upcoming projects** to allow independent experts to run assessments (eg. archaeological institutes).
- Information about upcoming contracts and bids should be shared during the initial phases of the negotiations. Regular updates should be published on the MoMP website and social networks. This was particularly highlighted by the industry, media organisations and civil society organisations.
- Publication of the **criteria for eligibility**.

### Once the contact has been awarded:

2. Publication of summaries of unsuccessful bids (and why they were not selected, based on the on the pre-defined criteria for eligibility) on the MoMP website at the end of the bidding process.

Some of these requirements are already contained in the regulations, but not all, or they are not yet fully implemented. A clear basis in the law itself as well as the mining strategy would give them a stronger foundation.

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## 1.2. Tendering process

Beyond transparency, the current bidding process also lacks clarity, efficiency, and fairness. In order to avoid favouritism and preferential treatments to occur in that area, it is crucial that clearer and more objective mechanisms are set up.

One of the first concerns was the lack of sound **technical assessments** of the bids, which often lead to abuses. To experts in the sector, these assessments should cover all costs and benefits, including the environmental, social and archaeological surveys to be carried out at the moment a project is being discussed. Additionally, some questioned the recent provisions allowing provincial directorates to issue contracts for mining activities, saying they lacked capacity to review bids, which lead to more corruption.

### **Stakeholders also recommended the development of a model contract,**

in consultation with the private sector and civil society organisations, with tight rules on what can be renegotiated during the lifetime of the project. The use of model contracts helps entrench best practice as matter of routine.

Lastly, they would welcome the **effective enforcement of legal penalties for preferential treatment**<sup>49</sup> (ie. criminalisation of favouritism from officials) and increased **civil society and media oversight** in all phases of the bidding process. The MoMP has recently invited IWA to be present during the bids evaluation as an observer. This is seen as a step in the right direction but the scope for civil society feedback remains too narrow, in their views.

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<sup>49</sup> As foreseen in Article 99 of the Minerals Law.

Additional changes to the current system were proposed concerning the tendering mechanism itself:

- **Application vs. tender for the awarding of exploration rights**  
Some stakeholders (donors and private sector in particular) questioned the relevance of awarding exploration rights via tenders. Tenders are seen to be relevant for projects that are well documented but, since the large majority of the resources in Afghanistan are not yet fully mapped, it is often difficult to ensure that the specifications and scope of the tenders are fully adapted to the mining project under scrutiny. They would support a system by which exploration rights are awarded by application.<sup>50</sup>
- **Simplification and rationalisation of the procedures at central and provincial offices.**  
The level of bureaucracy and long waiting times to obtain licenses were seen as one of the main drivers for illegal mining. Simplification could be achieved by (a) **allowing AISA to issue licenses** for mining by seconding an MoMP representative to AISA<sup>51</sup>; (b) computerising the process, by centralising all the licenses into one common information management system.
- **A diversified approach according to the commodity or type of operations**  
Stakeholders (mainly civil society organisations) would support the implementation of easier mechanisms for the awarding of construction commodities (privileging a 'first come first served' basis) and **small and artisanal scale mining contracts**. High value commodities and large-scale mining contracts would still be granted through bidding to get the best offers.

### 1.3. Confidence in the government

A number of government officials said they believed in the ability of the MoMP to drive the growth of the natural resources sector, provided they worked in close collaboration with other governmental agencies in order to secure mining sites, reduce corruption and build capacity within the ministry.

Some stakeholders however believed that **there was a lack of political backup** for the full development of the sector in a transparent and fair manner. They claimed they had not seen any firm intentions from the government to develop the sector in a sustainable manner in the last fourteen years, using as an example the lack of progress made towards EITI compliance.

The stakeholders who had less confidence or no confidence in the MoMP mentioned issues related to:

- **Capacity:** it is considered that the **level of expertise and human capacity** at ministerial level is still insufficient and the **lack of reliable geological data** make it even more difficult for them to make informed decisions at contract awarding level.
- **Lack of coordination:** There was a general call for more institutional coordination in the mining sector, especially between the MoMP, Ministry of Finance, MoCI, Ministry of Infrastructure, Afghanistan Investment Support Agency (AISA), ACCI, and Ministry of Foreign Affairs.
- Lack of sustainable strategy
- Excessive paperwork, bureaucracy and corruption

*"The Mes Aynak situation damaged the trust people had in the government to deal with this issue."*

Tolo News

<sup>50</sup> According to experts, this approach was already proposed by the MoMP when the new Minerals Law was drafted but rejected by upper law-making authorities.

<sup>51</sup> This type of collaboration within AISA already exists with the MoF and the MoCCI which have staff working in AISA's offices to shorten procedure timeframes.

## 1.4. Oversight and enforcement of the rule of law

**The main concerns with regards to oversight on mining sites and the rule of law are related to the current government's perceived lack of capacity to oversee the sector appropriately.** All stakeholders rated government oversight in the extraction sector rather poorly. They called for more regular and rigorous monitoring from part of the government as well as increased civil society organisations and local communities involvement. The consequences of weak oversight

do not only regard the rise in illegal mining but also risks that companies may extract more than what is foreseen in their contract, do not respect their obligations towards the communities or do not declare their revenues fully, for instance.

Experts acknowledged that insecurity and human resources shortages were major reasons for the state's weak oversight capacity but also questioned the effectiveness (and overall quality) of the MoMP's activities when they do monitor sites. The call for more government control was also made during the focus group discussions at community level.

The government's oversight capacities could be strengthened via:<sup>52</sup>

- 1 - The full implementation of the EITI requirements and further involvement of the AEITI
- 2 - The creation of a monitoring commission comprised of government officials, civil society representatives, journalists, NGOs and local people
- 3 - Reinforced requirements with regards to monitoring at contract level
- 4 - Increased involvement of the civil society and communities (as illustrated in the boxed statement)
- 5 - The set up of special forces to control and secure the mines

Valley in Bamyan province



*"Civil society representatives should be involved in monitoring and overseeing activities. Local people and religious leaders should be given trainings on the negative impacts of mining operations violations. Then the local people, with the assistance of the government, would have the capacity to visit mining operations and monitor their activities properly."*

**Civil society representative,  
Balkh**

<sup>52</sup> Additional recommendations are provided by Global Witness on the following areas: Role of the parliament, set up of a Mining Advisory Board, Community Monitoring, Applying standards to sub-contractors, Limiting sovereign immunity and, Restrictions on officials working for mining companies. Source: Global Witness (2014): "Building for the long-term: Avoiding the resource curse in Afghanistan"

## 2. STRUCTURAL AND CONTEXTUAL CONCERNS

As explained in Introduction, there are also structural (illegal mining, corruption) and contextual (security) concerns related to the development of the sector.

**The government, operating according to strict legal/regulatory and institutional framework, can have a direct impact on the structural issues and an indirect impact on security.**

### 2.1. Illegal mining

Stakeholders' views on the drivers of illegal mining were collected during the key informant interviews and focus group discussions. There is a widespread consensus (civil society, government representatives, government agencies, private sector) that combatting illegal mining is a necessary first step to reaping the benefits from the extraction sector.

On top of representing an important loss of fiscal revenues for the state, as mentioned several times during focus groups, illegal mining raises many safety concerns inherent to the extraction methods used on these sites.

Some stakeholders, however, insist that there should be a **distinction between illegal artisanal scale miners and medium to large-scale illegal operations**. They believe that with easier procedures (such as the issuance of certifications for existing small miners) and training, it would be possible to bring artisanal and small-scale miners back into the legal system. Training miners and legalising these

activities would help mitigate their potential negative environmental impact as well as bring revenues to the state via royalties and taxes. **Traceability is seen as a good way to reduce illegal activities, by preventing them from exporting the commodities.**

In the experts' views, the drivers of illegal mining are:

- The **macro-economic situation** - Poverty and unemployment
- The lack of **state sovereignty and oversight** in the majority of the mining areas
- Deficient institutional mechanisms:
  - Inefficient tax collection mechanisms
  - 'Burdensome' government procedures, in particular those related to:
    - The complexities of obtaining licenses
    - The royalty rates imposed on certain commodities. Gemstones, for instance, are subject to a 15% royalty regime, amongst the highest in the world for this commodity.
    - The requirement to bring uncut stones to Kabul to be valued.

Most stakeholders think illegal mining is a factor of instability, increased corruption and risks of providing more power to insurgents. The same respondents, however, agree that combatting illegal mining will be an arduous task since the system is well organised, operates since many years, generates very large revenues and is sometimes protected by high-level officials. **Controlling illegal mining would require a concerted effort to create a dedicated military task force.**

*"Up to 10,000 natural wealth deposits aren't under government control and may face looting"*

Minister Daud Shah Saba (Bloomberg, 21 October 2015)

## 2.2. Corruption

Corruption is still seen as a major issue in Afghanistan and remains closely interlinked with the security issues that the country is facing as well as civil servants' very low salaries.

Corruption has become the second biggest concern for Afghans. In the IWA 2012 National Corruption Survey, respondents thought the three biggest problems were insecurity (51% of respondents), unemployment (16% of respondents), and corruption (13% of respondents). In the 2014 survey, however, equal percentages of respondents (18% each) ranked

corruption and unemployment as the biggest problem in the country after insecurity (45%).<sup>53</sup>

The level of endemic corruption at institutional level therefore constitutes another threat for the development of the sector. It is also seen as a deterrent to attracting foreign investment, especially listed large-scale mining companies.

The 2014 Mineral Laws includes certain provisions against corruption<sup>54</sup> but they are not seen as being sufficiently enforced (if at all, in some cases). All respondents raised this issue spontaneously during the interviews,

from government representatives, to civil society organisations, private companies, media, indicating that it is a major concern for all of them when discussing the development of the sector. Suspicions of corruption regard the central, provincial and local powers and said to happen at all stages of the operations, be at contract awarding level or at regional level where illegal mines are in operation.

To them, in the absence of **effective implementation the rule of law, stronger transparency and monitoring mechanisms** are the only way to reduce the level of corruption.

## 2.3. Security

Security is an obvious key concern in today's Afghanistan. It is a question of life/death for those operating on the ground and, from a business angle, a question of risk premium and investment. Security (be it on the mining sites or on the roads used to export commodities) is a necessary pre-requisite for attracting investors.

The topic of security was investigated in more depth during the key informant interviews, seeking the experts'

perceptions on the relationship between security conditions and the development of the natural resources sector in Afghanistan - i.e. *will the natural resources sector improve or worsen the security conditions around mining sites and the country at large?*

In fact, a very large majority of respondents saw the development of the natural resources sector as a potential factor of peace and stability for the country. They believe the security conditions will actually improve in mining regions if extractive operations

are further developed. They did not consider extractive industries as a threat to security but rather as a deterrent for insecurity.<sup>55</sup> **The rationale behind this belief is based on the assumption that economic development is a driver of security**, as explained below.<sup>56</sup>

<sup>53</sup> Integrity Watch Afghanistan - National Corruption Survey 2014: <http://iwaweb.org/ncs/>

<sup>54</sup> Article 90.

<sup>55</sup> This point of view was put forward by a wide range of stakeholders, such as: EITF, MoCI, TLO, GOA, WJ, BCC Marbles, MoLSAMD, AISA, ACSFO, AREU, ANSA, donors, DoMP Ghazni, Kunduz, OEDA, Tolonews as well as focus group participants.

<sup>56</sup> Although this is highly debatable in the existing literature (and in the recent Afghan History)

## RATIONALE

The main drivers of insecurity in the extraction sector in Afghanistan are perceived to be:

- **Poverty and unemployment** – which provides a favourable ground for insurgents to recruit villagers and fuels insecurity at a **national level**.
- **Illegal mining and corruption** – there is a strong correlation between illegal mining, corruption and insecurity. The illegal mining is often made possible thanks to corruption and the overall lack of stability in the country and, insecurity is often reinforced by the presence of illegal miners, which are suspected of exacerbating it to keep government monitors at bay. This causes the rise of **insecurity at local level**.

The development of the extraction sector (supported by a fair and transparent regulatory framework) is perceived to carry two important promises:

- **The prospect of poverty alleviation** through job creation. If indeed security is largely due to unemployment, it is likely that there will be fewer incentives for villagers to engage with armed groups, as they will have other livelihood options at hand.
- **A decrease in (a) illegal mining and (b) corruption activities** (be them related to formal/legally awarded contracts or small scale illegal mining activities) thanks to reinforced transparency and oversight mechanisms.

For these respondents, working on creating more stable conditions and developing the extraction sector should go in parallel.

## INSECURITY EXACERBATION

However, if not managed according to rigorous transparency and oversight requirements, key informants<sup>57</sup> believe that the extractive sector also holds the potential to exacerbate insecurity due to:

- The remote location of the mines, which favours criminal operations with no government oversight.
- The rise of insurgents throughout the country and their increasing control of mines.<sup>58</sup>
- The fact that security forces themselves are often considered to be corrupt (due to low salaries).

Fears in this regard are often drawn from lessons learned in conflict settings in African countries.

However, beyond the mitigation of security risks, investors are also very concerned about the protection of their assets, as illustrated in the following statement:

### TALIBAN INVOLVEMENT

In a letter dated 2 February 2015, the UN Security Council Committee states that minerals are the Taliban's second-biggest income source after narcotics. The letter states the following: "In the extractive sector, three major types of Taliban involvement exist. In the first, the Taliban seem to be directly involved in the extraction of natural resources in the country. In the second, the Taliban extort or try to extort assets from government-licensed and unlicensed mining operations. In the third, the Taliban are acting as "service providers" for unlicensed mining operations in the country.

*"Security is a real issue but it depends on the level of risk you can afford to take. You are always going to have security problems in Afghanistan but we believe that that level of risk can be managed. For us it was mainly about if we could get a sign off for our project and protection for our assets. Those were the real challenges"*

**Mining expert  
(ex investor in Afghanistan)**

<sup>57</sup> Harakat, NEPA, DoMP Badarshan, for instance.

<sup>58</sup> UN Security Council: <https://unama.unmissions.org/Portals/UNAMA/SpecialReports/20150209%202160-l-p-special-report.pdf>

The next section explores ways to improve the investment climate for these types of actors.

### 3. DEVELOPMENT STRATEGY

#### 3.1. Private sector development

The development of the extractive industries sector will be largely reliant on investors' confidence in the regulations around mining.

Their main concerns (on top of the aforementioned issues, such as corruption, at central and local level, security, etc.) revolve around legal conditions and capacity:

The research questions for this subsection are:

- **How can the investment climate be improved?**
- **Should the Government focus on developing a domestic Afghan mining and oil and gas sector or focus on bringing in international companies to develop Afghanistan's resources?**

- **Legal concerns**

The private sector often complained about the delays in obtaining licenses (which can go up to two years, according to Afghan companies), the lack of transparency of the bidding process as well as two specific legal issues which are seen as major deterrents to investment in the sector:

- **The separation between exploration and exploitation contracts.** This system is seen as bearing many risks for the investors and private companies and civil society alike believe it needs to be reviewed. It is thought that, at the minimum, companies who carried out the exploration should **have primary rights to do the exploitation of the sites.**<sup>59</sup>
- The periodic review clause that is included in all contracts and provides for many uncertainties for companies. It leads them to believe that the sustainability of the contract conditions they negotiated is reliant on political trends and prevents them to plan for the long term.

- **Capacity related concerns**

With regards to capacity, their main apprehensions were related to the lack of domestic expertise and capacity (and **infrastructures**) and of good geological data. They also called for improved coordination between MoMP, MoFA, MoCCI, ACCI and AISA.

If a level of mistrust towards foreign investment was perceived during the research (largely due to the issues caused by some of the contracts awarded during the Karzai period), stakeholders also agreed that foreign companies' operations in Afghanistan would have a positive impact on the sector at large for the following reasons:

- The effective development of the mines based international standards;
- The equipment of domestic laboratories with modern mining tools; and,
- The potential for building domestic capacity via collaboration with foreign engineers and experts.

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<sup>59</sup> The new minerals Law has recognized the joint bidding of Exploration and Exploitation licenses as one package that enables the holder of Exploration license to automatically obtain Exploitation License after the mine is deemed economical. Stakeholders seemed unaware of this regulation.



### 3.2. Short, medium and long-term strategies

The development of the sector will rely on short, medium and term strategies.

The government<sup>60</sup> and many Afghan stakeholders support the view that the focus should be on the immediate development of the small and artisanal (and sometimes medium) scale mining and not large-scale mining. Increasing the number of smaller projects could, in their views, pave the way for initiating the large national projects in the future. They also would like to see more mineral processing within Afghanistan and increased integration with other sectors of the economy.

Although they recognise that there is a need for legalising and improving the quality of the smaller projects, international mining experts as well as private experts were more sceptical of this strategy, however. In their views, **large-scale mining requires widely different value chains, cost structures and markets.** Only foreign companies with experience in large-scale mining

*"We need to focus on joint-venture companies and create consortium. This would be the only solution because these companies will enhance the capacity of our local companies and we will reach our goal (self-sufficiency) in the long run."*

ACCI representative



Logar province

can run large-scale mining operations, according to them. They also explained that even if the Afghan capacity were able to develop their skills in that way then they would be at the mercy of large groups to commercialise the commodities. To them, this strategy is only moving the problem elsewhere.

Additionally, there is no contradiction between short term and long term strategies. Most of the respondents, that are supportive of the idea of developing the industry on the short term (ref. sense of urgency expressed during the KIIs), would support a **system by which short-term/small-scale and long-term/large scale approaches would not be in competition.**

Large, medium and small-scale mining projects should learn from each other and cover the existing needs of the mining value chain.<sup>61</sup> The Afghan private sector would be more in favour

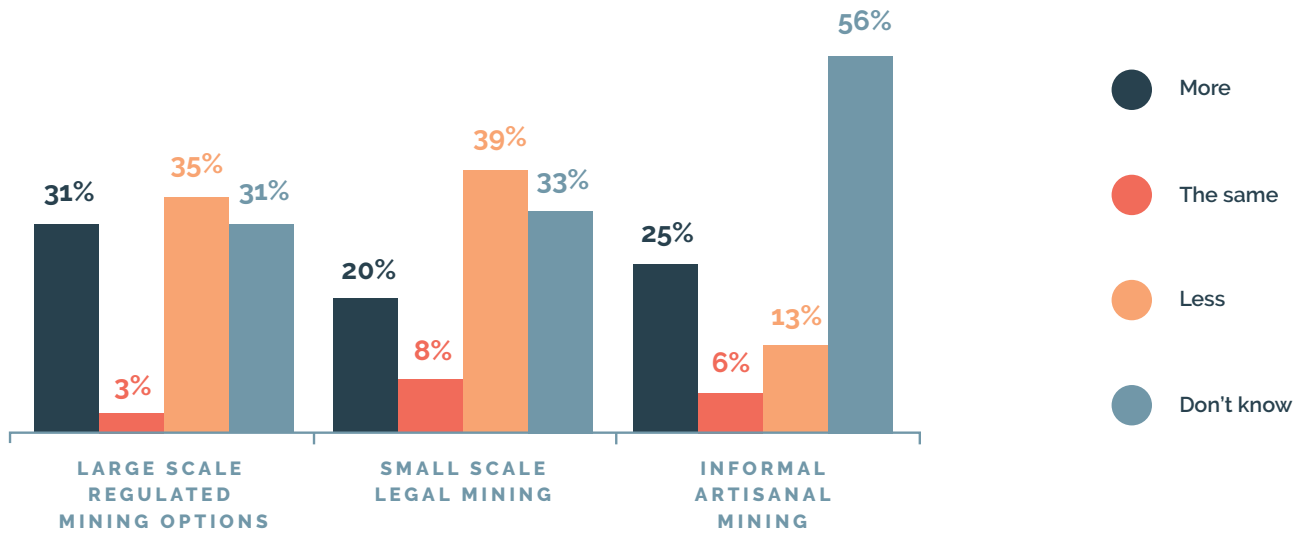
of working through consortiums, as illustrated in the quote above.

According to experts, **the sustainable development of the mining industry should be all-encompassing and relies on the following conditions:**

- making sure that the necessary regulatory, fiscal and institutional prerequisites are in place in order to drive business and investment, regardless of the scale of the project envisaged
- making sure that all actors (regardless of their size) play by the rules
- learning by doing, using cross-fertilization between small- and large-scale actors to coordinate their action and fully meet the existing demand at both national and international levels

<sup>60</sup> Minister Saba stated during a debate on Tolo News that the MoMP would focus on the small scale and artisanal mining for the next five years. (12 October 2015)

<sup>61</sup> WB, ICMM (2009): *How large-scale mining can engage with artisanal and small-scale miners*



**Graph 12.** Do you think there should be more, or less, of the following extraction activities in your region?

As shown in Graph 12, quantitative survey respondents were somewhat divided in their opinions on the type of operations that should be favoured. There was an almost even split between those who wanted more, or less, large-scale mining to occur in their region. Small-scale mining was less supported as for informal artisanal mining, 25% thought it should be encouraged but a majority of respondents (56%) said they didn't know.

### 3.3. Artisanal Scale Mining

Many stakeholders consulted during this research believed that the development and formalisation of the ASM sector would have a positive impact on job creation as well as the decrease of illegal mining. **The support to micro to medium scale mining sector carries important local development potential.**

Their recommendation would be to, first, **carry out a large study on ASM** in order to better understand and measure the sector, and second, try to **bring artisanal miners back into the legal system** by issuing easier licences supported by regular and strict inspections.

The MPF provides some high level guidance on 1) integrating informal ASM activities into the legal system; 2) integrating informal ASM activities into the formal economic system, and; 3) reducing the social and environmental impacts of ASM. Additionally, the IGF is currently developing a **Guidance document on ASM**<sup>62</sup>, which provides useful best practice examples to implement this recommendation. For instance, they suggest initiatives to formalise ASM through the implementation of supply chain initiatives.

<sup>62</sup> RCS Global, *Guidance for Governments on Managing Artisanal and Small-scale Mining* (Draft 2, September 2015)

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## 6. Integrating communities

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*The government's limited capacity to monitor and regulate mining operations reinforces the need for the central and local government to demonstrate interest in, and commitment to, local communities. Experience from around the world illustrates that political and social factors can impinge upon mining operations and easily prevent, disrupt, or halt them. Active dialogue between mining companies and local residents helps to create a safer operating environment for mining operations<sup>63</sup> as well as significantly reduce the causes and effects of the expectation gaps as well as security threats. Additionally, today, more than ever, it is vital for mining companies to seek a social licence to operate.*

*The government's role could be twofold:*

- *Informing, engaging with and integrating communities;*
- *Playing a pivotal and supportive role in the necessary dialogue between companies and communities.*

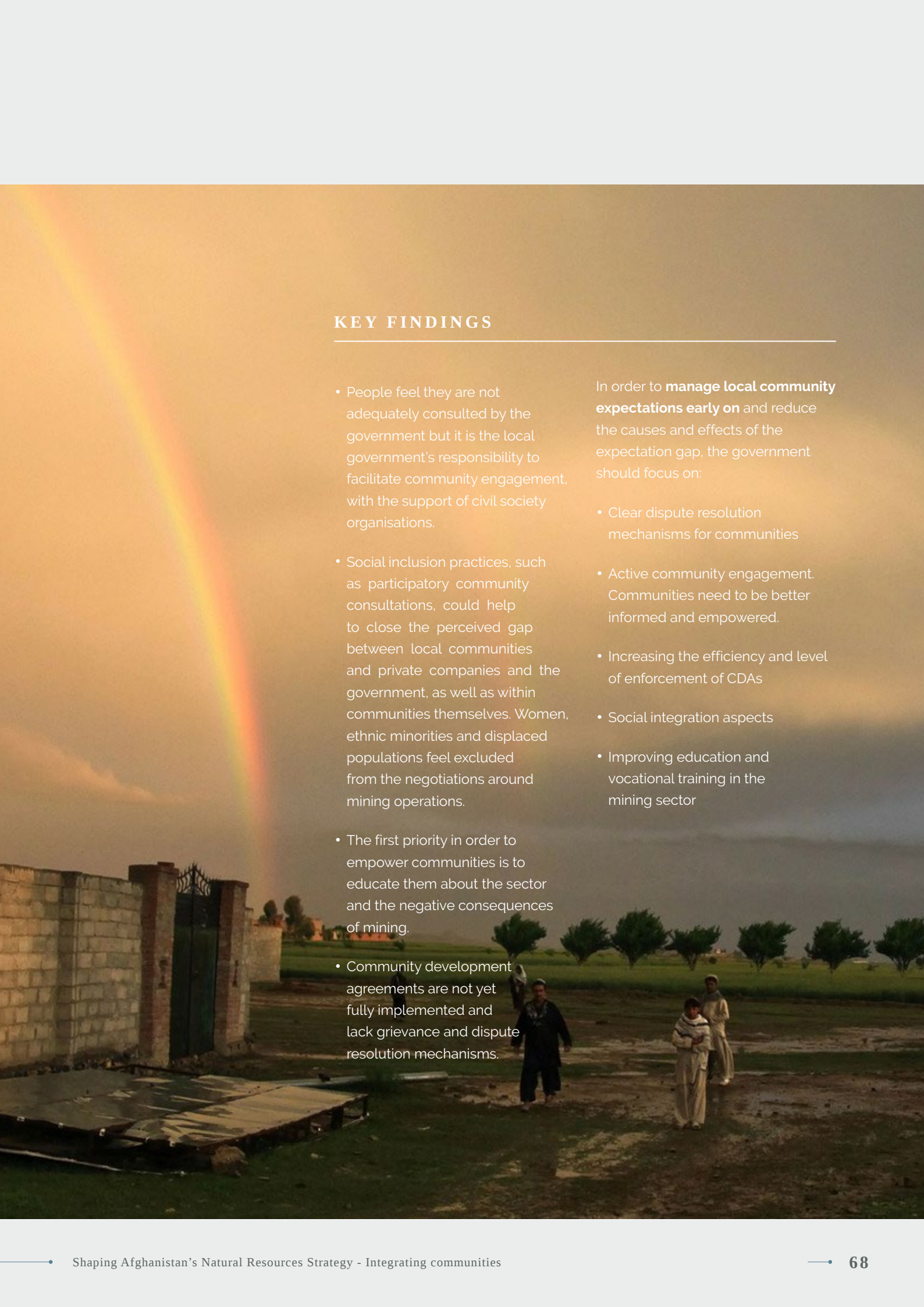
*In other words, the **dialogue involves three types of actors:** the government (national, local), communities and companies. This section focuses on:*

- *Community consultation*
- *Community development agreements*
- *Social integration*
- *Technical and vocational training*

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<sup>63</sup> Noorani, Javed (2013): *Afghanistan's Economic Transition in the Making? Community Perspectives from Aynak and Hajigak Mining Sites*. Heinrich Böll Stiftung.

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## KEY FINDINGS

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- People feel they are not adequately consulted by the government but it is the local government's responsibility to facilitate community engagement, with the support of civil society organisations.
- Social inclusion practices, such as participatory community consultations, could help to close the perceived gap between local communities and private companies and the government, as well as within communities themselves. Women, ethnic minorities and displaced populations feel excluded from the negotiations around mining operations.
- The first priority in order to empower communities is to educate them about the sector and the negative consequences of mining.
- Community development agreements are not yet fully implemented and lack grievance and dispute resolution mechanisms.

In order to **manage local community expectations early on** and reduce the causes and effects of the expectation gap, the government should focus on:

- Clear dispute resolution mechanisms for communities
- Active community engagement. Communities need to be better informed and empowered.
- Increasing the efficiency and level of enforcement of CDAs
- Social integration aspects
- Improving education and vocational training in the mining sector

# 1. COMMUNITY CONSULTATION

Overall, there appears to be little active national dialogue among the public about mining activities in Afghanistan. Low familiarity and absence of communication result in a precarious balance between expected benefits and potential concerns. It also has an impact on security around the mining sites.

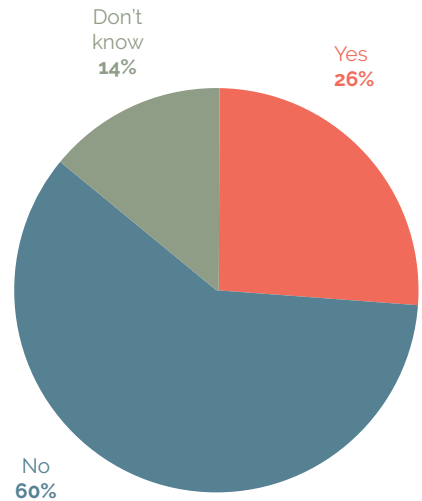
Currently, however, **the level of community consultation is deemed unsatisfactory.** Civil society, focus group participants, and the private sector alike share this point of view. Six out of ten survey respondents stated that the communities affected by the mining activities were not adequately consulted with. The feeling that the government does not consult Afghan people and communities enough is even higher amongst those that are unaware of natural resources, a view supported by 70% of the respondents within this group.

*This subsection aims to answer the following research question: How can we create channels for communication and dialogue between the government, mining companies and local communities to reduce the threat of conflicts?*

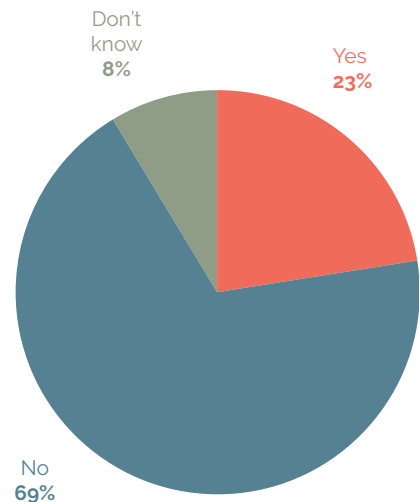
Private sector companies also complained about community engagement for two reasons:

- 1 - The government's lack of involvement and capacity building** (a view that is shared by civil society, such as IWA) which created large knowledge gaps
- 2 - The difficulties they face at local level in negotiating directly with shuras.** They claim local police asks for bribes at every step of the way and shuras, possibly due to their limited understanding of the sector, are extremely weary of discussing with companies.

The latter comment may stem from the finding made in Section 4. Accessing information, where many focus group respondents (from 'active' mining sites) stated they had not yet seen any benefits from mining operations. The result of this is, **1) further erosion of trust in the political classes and the Government; 2) lack of trust in private companies; 3) frustration that they have not received any benefits.**<sup>64</sup>



**Graph 13.** Do you feel that people and communities affected by mining and oil and gas activities are adequately consulted with?



**Graph 14.** Do you feel that Afghan people and communities are adequately consulted by the government?

<sup>64</sup> Global Witness also points out additional issues which were not investigated during this research but should be taking into consideration when discussing community engagement, namely: Resettlement, water and land use, and compensation as well as Health and safety standards. Source: Global Witness (2014): *Building for the long-term: Avoiding the resource curse in Afghanistan*

Focus group discussions statements (see box on the right) also show that people **expect the local government to be at the centre of community dialogue**. A view that is also supported by private companies, as illustrated in the following statement from an Afghan mining company's Operations Manager: *"If companies want to work in Hajigak, they should first go to the Bamyan government. (...) It's the responsibility of the local government to inform people. The mining companies have responsibility to offer jobs, and benefits and inform the local government about their plans and activities. But it is the government that has the authority to talk to people. This is responsibility of the local council. There should be a specific mechanism to approach local people."*

These statements also confirm the finding that local communities' expectations tend to be very high and **establishing dialogue mechanisms could be a way to decrease the current 'expectation gap'**.

## THE BASICS OF COMMUNITY ENGAGEMENT & MONITORING

As pointed out in FGDs, extraction operations can easily create conflicts between local communities, companies and the government and therefore undermine efforts to develop mineral resources. In Afghanistan, the presence of armed movements in many parts of the country provides a particularly easy path for opposition to become violent. Creating channels for communication and dialogue between government, companies and local

communities can do much to reduce the threat of conflict, and indeed to make the local community a positive force for stability. Community consultation is seen as a driver for security but is very reliant on how informed community members are in the first place.

An illustration of the potential role that communities can play is the one that occurred between a private company and communities over schools in Mes Aynak. The private company had promised to build schools but failed to deliver. In reaction to this, local communities, without the support of governmental actors, put a direct pressure on the company to have their school built. This shows both the risk for a government not to play an arbitrary role (ie. rise of a conflict situation with potentially detrimental political and economic consequences) as well as the conditions to creating a dialogue between communities and companies, which are twofold:

- Existence of a legal/political pressure on companies and the government
- Conditionality clauses for companies

Stakeholders recommend the set up of committees comprised of representatives of government, companies and communities to foster dialogue among the various parties. Additionally, they suggest the set up of regular meetings with government officials to discuss issues and problems in mining sites. As mentioned in Section 5.1.1. Transparency, all relevant communications and general information must be published and be accessible to public.

*"I think the best way to adjust our community to the extraction operation is to consult with us and like this the security will also be provided. Our expectation from the government and extraction companies are: they should hire our people as employees, we have many engineers."*

Male, Aynak

*"At the very first stage, trust should exist between people, government and extracting companies. We want to know why the distribution of gas isn't fair, and why they are always in conflict with neighbouring provinces, why don't they hire youths from our village. These questions and problems should be raised in a meeting in provincial level with the extracting company, in order to talk about these issues and find solution for them.."*

Male, Shakarak, Jawzan

Community monitoring can be supported through:

- The development of community monitoring tools
- The mobilisation and training of communities to monitor extractives industries projects
- Building capacity amongst local civil society organisations

## AN EXAMPLE OF COMMUNITY MONITORING

by Integrity Watch Afghanistan

Integrity Watch encourages active citizenship and community mobilization through its programs.

The **Community Based Monitoring of Extractives program** promotes good governance of the mine and hydrocarbon sector in Afghanistan. In order to avoid the "resource curse" and further derailment of the security situation, the program advocates for integrity, transparency, and accountability in the governance of the extractive industries sector. The program aims to mobilize communities to monitor extraction processes to avoid negative social and environmental impacts and to ensure socio-economic development of local communities around extraction areas.

Integrity Watch also organizes civil society coalition/Network to improve the awareness of the extractive industries and encourage civil action that will promote better management of natural resources. Integrity Watch Afghanistan has recently formed a network entitled "Mining Watch Afghanistan". This network is comprised of the most organizations actively working the extractive field.

Community Based Monitoring of Extractives program started in 2007 with a research focus and has since expanded to include monitoring resource governance including development and the implementation of laws and policies. The program started with mobilization of communities around mines in 2011 and now actively engages with communities around Aynak and Chromite -Logar, Ajigak Bamyan and Maydan Qardak, Qarazaghan- Baghlan and Emeralds in Panjshir . In addition, the program monitors revenue transparency from the extractive sector through active participation in the Afghanistan Extractive Industries Transparency Initiative (AEITI).

The monitoring of extractive industries through communities assesses whether companies comply with international best practices for the extraction and commercial production of minerals. It aims to limit the adverse impact of mining on the environment and all affected communities. Based on the research conducted, communities around Aynak , Ajigak, Qarazaghan and chromite have been mobilized to assure company compliance to international best practices of the mining industry.

## 2. COMMUNITY DEVELOPMENT AGREEMENTS & GRIEVANCE MECHANISMS

This subsection investigates the effectiveness of the Community Development Agreements (CDAs), as foreseen in the 2014 Minerals Law (Article 92). Those are agreements between mining companies and affected communities to ensure appropriate compensation for negative impacts, agree on benefits to be provided to the communities by private companies, and ensure regular dialogue and consultation between affected communities, companies and the government.

Experts considered CDAs to be a positive step to pave the way for more community engagement in the future but thought the system in place carried a few shortcomings at the moment. The most common criticisms were that:

- a - CDAs are only partially implemented throughout the country
- b - They usually benefited to the most influential members of the community only
- c - No specific monitoring or oversight mechanisms are foreseen.<sup>65</sup>
- d - The language used was too complex for the community members to fully understand them.

In mining experts' views, the government should first address the awareness deficit amongst mining communities. They are often unaware of the negative impacts of mining, how a mining operation works (ie. the different development phases) as well as of their rights.

Private sector companies also pointed out that the government had provided too little information on CDAs and the mechanisms behind.

*"Communities don't really talk about the details of the CDAs, they don't understand the negative impacts of the extractive operations (how much water will be taken, the impact it will have on the crops etc.)."*

Javed Noorani , NRM



Figure 3. Main knowledge gaps

Impact on CDA negotiations

<sup>65</sup> It is acknowledged that the new Minerals Law recognizes community development as part of mining operation which means MoMP inspectors are responsible for checking the implementation of the CDA but stakeholders believe that specific/reinforced mechanisms should be foreseen, involving civil society organisations for instance.



Mining experts highly recommend that the process be carried out in close collaboration with civil society organisations to monitor and support the negotiation and implementation of the CDAs.

Lastly, as explained in the previous section, many community members complained about the lack of representativeness of those who carry out the negotiations for them.



*"informal communities (...) often don't know what's happening, what they are committing to, the mechanisms available to defend themselves" "It's really important to explain to them what rights they have. For instance, if their land is affected because of a mining project they would go to ministry of agriculture to complain, which can't do anything"*

The Liason Office

## DISPUTE RESOLUTION

Civil society also insisted on the lack of grievance mechanisms in the CDAs. They suggest using CDCs as the main interlocutor, as a channel to report mining abuses, and make sure the government feels accountable.

Additionally, they thought the government should **provide an incentive to local communities to file for infringements or illegal mining.**

The insertion of a requirement for a high quality dispute resolution mechanisms (which is **accessible, effective, impartial and fair**) is a necessary step for the full implementation of CDAs.

**Several stakeholders (such as donors, NRM representatives)**<sup>66</sup> also mentioned the necessity for mining companies to seek a **social licence to operate**<sup>67</sup>,

which allows communities to have access to:

- 1** - Environmental impact assessments
- 2** - Development plans
- 3** - Revenue projections
- 4** - Corporate social responsibility initiatives

<sup>66</sup> Noorani, Javed, (2013), *Afghanistan's Economic Transition in the Making? Community Perspectives from Aynak and Hajigak Mining Sites*. Heinrich Böll Stiftung.

<sup>67</sup> A social licence to operate is granted by communities and is conditional on companies behaving in a manner that is consultative, collaborative, ethical, progressive and legitimate. Alison Goldstuck and Tim Hughes (2010), *Securing a Social Licence to Operate? From Stone Age to New Age Mining in Tanzania*

### 3. SOCIAL INTEGRATION

At local community level, not only was the importance of consultation reiterated, but many complained about the **lack of representativeness of those of the community that are usually involved in the negotiations.** This feeling is especially verified amongst female respondents and vulnerable communities.

Vulnerable groups within these communities are therefore the displaced, having to resettle elsewhere, women, and ethnic minorities.



*"the representatives and elders of the community make the decisions with the consultation with our men. We are not able to influence on the decision-making. I haven't seen any particular group whose interests are not taken into account in the decision-making."*

Female, Aynak, Logar

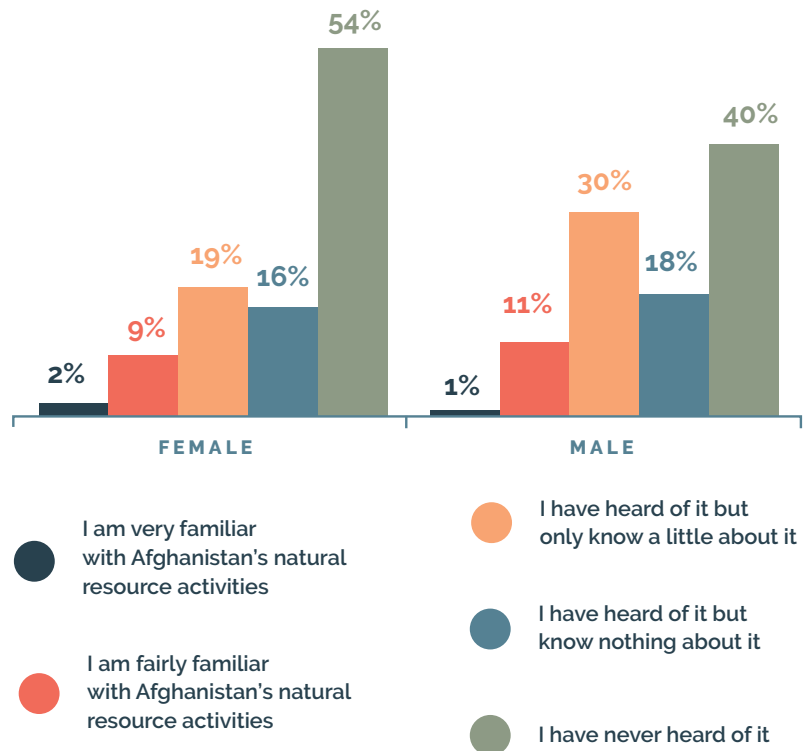
*"there are many vulnerable people that are marginalized for example the people living close to mining sites and are being displaced from the neighbourhood. They are resettled in our village and they are very poor, no one pays attention to them. The decision-makers just take care of their own interests."*

Male, Ahmad Abad Aynak, Logar

*"Each man will share his opinion and the final decision is made based on that. No vulnerable people, no other ethnicities, only Uzbeks."*

Male, Nooraba

As mentioned in Section 3. Accessing information, only one fourth of the female respondents stated they knew of mining operations. Their level of awareness is proportionally significantly lower than men, as demonstrated in the graph below.



Graph 15. Do you know about natural resource activities in Afghanistan? Per gender

**Land disputes are also a very significant source of conflict**

The land title mechanisms in Afghanistan are centuries old. Land has often been inherited over centuries based on ancient entitlement systems. Large scale mining operations often involve acquisition of land held by individuals including those belonging to vulnerable local communities. The somewhat difficult and longterm nature

of these entitlements underscores the significant effort the government must put into bringing coherence and management of land disputes across the country. The Afghanistan Research and Evaluation Unit, in its study on landrelated conflicts, says in its findings that *"the highest frequency of disputes concerns property ownership rights: inheritance and land occupation are the most common sources of dispute."*<sup>68</sup>

A community representative interviewed in 2011 claimed that *"the government confiscated eight jeerab of my land for mining without compensating me and then diverted the water for the exploitation of the mine. The government's act tore apart people's safety nets and forced them to relocate."*<sup>69</sup>

**4. TECHNICAL AND VOCATIONAL TRAINING AGENDA**

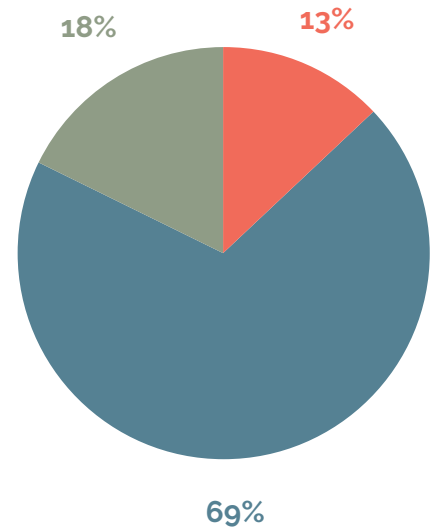
The severe shortage of Afghan well-trained technical experts, administrators and managers in the raw materials sector is seen as a major obstacle for the development of the mining sector in the future by the stakeholders. They would support increased investment on the human resources capital in the mining sector as well as a widespread education system in the field of mining and geology. Some would even support the creation of an Afghan university on mining and extraction (following the example of Kazakhstan), assorted with requirements in the extraction contracts for companies to hire students trained in this university, as well as the training of qualified professionals for the Afghan mining sector.

Only 29% of the respondents think the private sector (both Afghan and foreign companies) should be involved in improving the educational and vocational infrastructures around the mining sites. The vast majority thinks it is the government's responsibility to be in charge of the education and training of the populations around the mining sites.

**Capacity building efforts** should therefore have four distinct components:

- The improvement of **courses** directly related to the technical aspects of mining at university level;
- The introduction of a **mining component to the studies** of Public Administration, Economics and Law;
- **Strategic consulting** at the Ministry level;
- Creating stronger **links between the academic sector, the private sector and the public administration**

- Foreign companies
- Government
- Local afghan companies



*Graph 16. Who, if anyone, should be responsible for improving education & skills training around mining sites?*

<sup>68</sup> Deschamps, Colin, and Alan Roe. *Land Conflict in Afghanistan* (Afghanistan Research and Evaluation Unit, Kabul, April 2009).

<sup>69</sup> Cited in Integrity Watch Afghanistan (2011): *Hajigak: The Jewel of Afghan Mines*.

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## 7. Protecting Afghanistan's heritage

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*The political choices made today should take into account Afghan history, be it its past, via the preservation of relics of its most ancient times, to its future via the preservation of its environment. On top of all other good governance practices, the government will also be held accountable for the protection of Afghanistan's heritage while developing the sector.*

*The level of concerns expressed during the study around the preservation of the Afghan archaeological and environmental assets was surprisingly high (and somewhat unexpected). It is true that awareness of the risks of damages to Afghanistan's past and future heritage grew significantly when the public found out about the Mes Aynak archaeological findings, but all stakeholders also expressed strong concerns around the potential environmental damages the development of natural resources activities might generate, for the future, which is unusual in this country.*

*This section explores stakeholders' views on the best possible measures to reduce the negative cultural or environmental impacts of extractive industries.*

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## KEY FINDINGS

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- 1 -** The government has a responsibility to preserve Afghanistan's context. Beyond the protection of Afghanistan's national heritage and environment, a responsible **management of archaeological findings and the ecosystem can provide for long term social and economical benefits**
- 2 -** This can only be done through careful planning and relevant assessments at all stages of mining operations.
- 3 -** At contract level, assessments (and the costs attached to them) must be foreseen from the very early stages.
- 4 -** At operational level, very close coordination amongst relevant actors and oversight may help mitigate the negative impacts of mining.
- 5 -** At local level, increased awareness of mining communities of the importance of both these aspects (the preservation of the past and future of their villages) will help them buy in to the projects, negotiate agreements with in mind the potential negative impacts of the operations on their livelihoods and build capacity to monitor operations on the ground.

## 1. ENVIRONMENTAL CONCERNS

All stakeholders expressed some level of concern about the preservation of the environment, even amongst the least informed, or impacted audiences. Environmental awareness and protection does not usually rate as highly in Afghanistan.<sup>70</sup>

At community level however, people usually find out about environmental pollution only once the mining operations have started, having received no prior information on related risks generally. They were mainly concerned about **water management and its impact on livelihoods**. They also complained about the insufficient levels of **monitoring** from part of the government and civil society organisations in this sector.

The stakeholders' recommendations in this area were the following:

- **At contracting level:**
  - To carry out of sound Environmental Impact Assessment (EIA) and Environmental and Social Impact Assessment (ESIA) prior to the project.
  - To run environmental management programmes in the initial phases of the mining project.
- **At operational level:**
  - To perform regular monitoring from government representatives or civil society organisations.
  - To set up of circles of green trees around the mining projects.
  - To use of technology and mechanisms which have the lowest hazardous emissions.
- **At local level:**
  - To raise awareness of environmental protection at local government and community levels via workshops and seminars.

*"Mining companies didn't keep their promises, destroyed lands, gardens, water irrigation systems without compensation or repair."*

**Male, Nooraba**

*"Mes Aynak has the potential to be the Pompeii of Afghanistan, if properly preserved. Or, if mining proceeds recklessly, visitors and future generations of Afghans will instead be confronted with the legacy of poor planning."*

**The Guardian<sup>71</sup>**

## 2. LOSS OF CULTURAL HERITAGE

Afghanistan's historical heritage is a source of national pride. Well managed, it could provide the foundation for a future tourism industry. Large-scale mining operations will undoubtedly have an important impact on historic artefacts in the future and have already done so in the past in the archaeological

sites and heritages in the Aynak copper mine of Afghanistan.

Stakeholders in general have shown great concern for the preservation of their national cultural heritage. The Mes Aynak scenario provided a clear illustration of the negative effects of not foreseeing the eventual damages that can be caused by mining to national cultural heritage ahead of time.<sup>72</sup>

<sup>70</sup> The New Minerals Law has a chapter on environmental protections but most stakeholders were either not aware of it or had never seen it being enforced in practice.

<sup>71</sup> The Guardian (2013): *Mes Aynak highlight's Afghanistan's dilemma over protecting heritage*.

<sup>72</sup> The New York Times (2012): *Ancient Buddhas, Modern Peril*

The main consequences were the following:

- The endangering of and damages to significant cultural heritage
- A decrease in the general public's confidence in the government to manage the sector in a sustainable manner
- Many cases of social conflicts

Beyond the protection of Afghanistan's national heritage, a responsible **management of archaeological findings can provide for long term social and economical benefits.** In Mes Aynak for instance, the searches are now providing employment for about 350 people from neighbouring villages. This could carry on for a few years, until infrastructures are built for the viable commercial exploitation of the mine.<sup>73</sup> If the site became touristic on the long run, there could be a whole economy around it.

Additionally, once the searches started to take place, efforts put in place to protect the site eventually became a positive story for the MoMP in terms of image. It demonstrated that they could put virtuous procedures in place when necessary.

To mitigate those risks, and go beyond the legal provisions contained in the Minerals Law (Article 109) as

well as the Law on Protection of Afghanistan Archaeological and Cultural works, stakeholders suggested the following measures:

- **Involving archaeologists from initial stages of the negotiation of a contract.**
  - Archaeological studies should take place in parallel with other assessments (geological, environmental, social).
  - Development of a **clear code of practice** and methodology to preserve the environment and archaeological context of the sites.
  - Collection of **reliable data and geological information** on mining sites.
- **Reinforcing institutional coordination**
  - **Raising awareness of the cultural heritage with the geological survey team and building capacity at MoMP.** Those who prepare contracts should include archaeological data from the very beginning. The contracting party should know that there could be an archaeological element from the start and search costs should be included in all pre-assessments.
  - Working closely with the Ministry of Culture at all stages of the negotiations of the contract.
  - **Developing a national strategy national heritage strategy,** based on an archaeological map of the country and clear priorities.<sup>74</sup>

*"Many statues and paintings will be saved for museum exhibitions, but the potential for understanding a key piece of Afghan history — and for drawing future tourists — will soon be lost. Deborah Klimburg-Salter, a scholar of art and archaeology who recently visited the site, told me that Mes Aynak "would be of great historical value not only for the history of Afghanistan but the whole region — if they could slow down, excavate and document properly."*

New York Times

<sup>73</sup> The exploitation of the mine is currently on halt as the contract is being renegotiated and large infrastructure developments (such as the construction of a railway to ship the commodities and a power plant) are yet to take place.

<sup>74</sup> The French Archaeological Delegation to Afghanistan has started developing an archaeological map of the country. It is foreseen to be finalised in 2017.

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## 8. Policy implications

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*In conclusion, stakeholders believe that Afghanistan's strategic long-term vision should include a knowledge driven development of the mining sector, more mineral processing within Afghanistan, integration with other sectors of the economy, revised and expanded legislation, a recentralized licensing system, transparency in the tender process, due diligence, a mechanism for revenue and tax collection, NEPA review, and an involved and educated civil society.*

*This section presents the stakeholders' suggestions on how to improve the natural resources strategy.*

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EIDF themes	Stakeholder priorities	Stakeholder recommendations	Institutions
Transparency - Publication of:	Extractive contracts <b>(Priority: 1)</b>	Amendment to the Minerals Law to make it a condition for the validity of the contracts	GIRoA
	Ownership contracts <b>(Priority: 1)</b>	Amendment to the Minerals Law to make it a condition for the validity of the contracts	GIRoA
	Publication of project-level production and payment data <b>(Priority: 1)</b>	Amendment to the Minerals Law	GIRoA
	All rules and information on mining <b>(Priority: 1)</b>	Full publication on the MoMP website	MoMP
	Commitment to EITI <b>(Priority: 1)</b>	Amendment to the Minerals Law / Mention in EIDF	GIRoA & MoMP
Bidding	Publication of public criteria for eligibility <b>(Priority: 1)</b>	Amendment to the Minerals Law	GIRoA & MoMP
	Set up of penalties for preferential treatment <b>(Priority: 1)</b>	Enforcement of the existing legal provisions	MoJ
	Development of model contracts <b>(Priority: 2)</b>	International best practice experts in consultation with the private sector and civil society	MoMP (with private sector & civil society)
	Centralised management system <b>(Priority: 1)</b>	With donor support for development and training	MoMP
	CSOs and media oversight of the bidding process <b>(Priority: 2)</b>	Involve CSOs earlier on in the bidding process & inform media from the start of the process	MoMP
	Prior information on upcoming projects <b>(Priority: 1)</b>	Publication on the MoMP website and media	MoMP
	Reinforce DoMP capacity <b>(Priority: 1)</b>	Reinforce DoMP level capacity to review bids and grant them the responsibility to do so only once they have the right facilities, trainings, pilot projects in place	MoMP

Table 7. Strategy improvements (1)

EIDF themes	Stakeholder priorities	Stakeholder recommendations	Institutions
<b>Active community engagement:</b>	CDAs improvement <b>(Priority: 1)</b>	Facilitate private sector-community dialogue and design specific enforcement mechanisms	DoMP (with civil society) DoMP
	Community monitoring systems <b>(Priority: 1)</b>	Develop systems with civil society	MoMP (with civil society)
	Develop dispute resolution mechanisms <b>(Priority: 1)</b>	Develop systems with civil society/ Amendment to Minerals Law	GIRoA
<b>Security</b>	Set up a specific taskforce <b>(Priority: 2)</b>	Coordination with MoI	MoI
<b>Social, environmental &amp; cultural impacts:</b>	Increased coordination amongst relevant institutions and the private sector <b>(Priority: 1)</b>	Facilitate private sector-community dialogue and design specific enforcement mechanisms	MoMP
	The collection of reliable data and geological information on mining sites <b>(Priority: 1)</b>	Develop systems with civil society	GIRoA
	The development of clear a code of practice for all preliminary assessments <b>(Priority: 2)</b>	Work with NEPA and implement systematic assessments Environmental Impact Assessment (EIA) and Environmental and Social Impact Assessment (ESIA) prior to the project	MoMP, NEPA, MoLSAMD
	Preliminary archaeological assessments and a clear methodology to preserve the environment and archaeological context <b>(Priority: 1)</b>	Design methodology with relevant institutions (UNESCO, DAFA, etc)	MoMP, Ministry of Culture and others
<b>Financial issues &amp; Benefit Sharing:</b> <b>(Priority: 1)</b>	Set up of an accurate accounting system for mining revenues <b>(Priority: 1)</b>	Develop a computerized systems (or use previous models by donors and train staff)	MoMP, MoF
	Set up and publication of a single, transparent account <b>(Priority: 1)</b>	Work with MoF	MoMP, MoF
	Transition to a stabilization fund (Norway) in the medium term <b>(Priority: 2)</b>	Prepare with MoF	MoMP, MoF
	Provide clarity on the distribution of the community fund (strict allocation) <b>(Priority: 1)</b>	Work with communities, CSOs, DoMPs to rationalize the system and set guidelines	GIRoA, MoMP

Table 7. Strategy improvements (2)

EIDF themes	Stakeholder priorities	Stakeholder recommendations	Institutions
<b>Oversight</b>	Full implementation of the EITI requirements <b>(Priority: 1)</b>	Start with account transparency Involve AEITI	MoMP, AEITI
	Reinforced requirements with regards to monitoring at contract level <b>(Priority: 1)</b>	Transparency in the procedures at all stages	MoMP
	Increased stakeholder coordination <b>(Priority: 1)</b>	Dialogue between MoMP, MoF, MoCI, MoFA, AISA, ACCI)	MoMP and others
	Increased involvement of civil society <b>(Priority: 1)</b>	CSO should have the right to provide input	MoMP and civil society
<b>Private sector development:</b>	Simplification of the procedures to obtain licenses <b>(Priority: 1)</b>	Easier licenses for lower value commodities and small scale (AISA)	GIRoA, MoMP, AISA
	Review of the periodic review clause <b>(Priority: 2)</b>	Replace the periodic review clause by a more predictable provision in the upcoming model contract	GIRoA, MoMP
	Combat illegal trading <b>(Priority: 2)</b>	Introduce a high-quality system to track products (especially gemstones), and to eventually 'brand' products as being from Afghanistan.	GIRoA and AEITI
	Increasing domestic expertise and capacity (processing commodities in country) <b>(Priority: 2)</b>	Consortium building	MoMP, private sector
<b>Education</b>	Reinforce curriculum <b>(Priority: 2)</b> Set up training programmes <b>(Priority: 1)</b>	Work with MoE and private companies	MoMP, MoE, private sector
<b>Artisanal Scale Mining</b>	Carry out a large study on ASM <b>(Priority: 1)</b>	Commission a study on ASM to understand the needs of the sector	GIRoA, MoMP
	Issue easier licenses <b>(Priority: 1)</b>	Amendment to Minerals Law – empower AISA	
	Provide training to miners <b>(Priority: 2)</b>	Work with private companies and MoE	MoMP, MoE, private sector

Table 7. Strategy improvements (3)

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## 9. Towards a collective license to operate

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*This section provides tools to take this stakeholder engagement further, towards the formulation of a shared vision based on common long-term objectives and the build up of **resilient and sustainable local development**. It tailors the well-known model of Social License to Operate (SLO) to the Afghan context by proposing a broader framework based on a multilateral model that is articulated around the notion of **sustainability** (going beyond the sole goal of 'acceptability' which animates the Social license to operate).*

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## THE SOCIAL LICENSE TO OPERATE: PRINCIPLES AND LIMITATIONS

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In recent years, a model has been developed to improve companies-communities relations, the Social License to Operate (SLO). A Social License to Operate is granted by communities and is conditional on companies behaving in a manner that is consultative, collaborative, ethical, progressive and legitimate (Alison Goldstuck and Tim Hughes (2010)). According to Thomson and Boutilier (2011) a Social License to Operate is, more specifically, a community's perceptions of the **acceptability** of a company and its local operations. The main weakness of the SLO is that it is mainly focused on preventing and solving conflicts, most often in the short term, and articulated around the sole goal of 'social acceptance'. In the Afghan context, the SLO may be replaced by a wider vision towards a more **resilient and sustainable local development**<sup>75</sup> – a Collective License to Operate.

## SHIFTING TOWARDS A COLLECTIVE LICENSE TO OPERATE

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### Why does Afghanistan need a CLO?

Afghanistan needs a framework for a continuous stakeholder dialogue as well as tools to ensure its strategy is truly orientated towards long term sustainable development and resilience rather than short term economic gains.

### Who does it concern?

The Collective License to Operate will involve:

- **The state**, understood in its planning (to promote a fair and sustainable socio-economic development of the sector) and regulatory (to codify and enforce rules and regulations while imposing oversight for the benefit of the public at large) roles;
- **Mining companies**, ie. international and local companies interested in undertaking large-scale mining or oil & gas projects, as well as smaller artisanal mining actors;
- **The 'community'** at large, ie. network of stakeholders that share a common interest in the development of the natural resources sector and make up the granting entity: individuals, groups, organisations that are either affected by the operations or can affect them (ie. mining communities, civil society organisations, media, etc.).

### Main principles

In the Afghan context and based on the consultative process conducted by the research team, it does seem that the decisions made today by the Government of Afghanistan, in collaboration with other key stakeholders, can shape the specific political, economic, social, and environmental model of the country for the next decades.

It is in every stakeholder's interest to promote sustainability over short-term gains, by:

- Maximising the positive economic impacts on the local economy, linking it to wider economic cycles and making it less dependant on resources availability or commodity prices.
- Linking responsibility, information, and social cohesion.
- Working towards environmental and cultural sustainability.

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<sup>75</sup> Source: Emmanuel Raufflet (2014), *From social acceptance to resilient local development*.

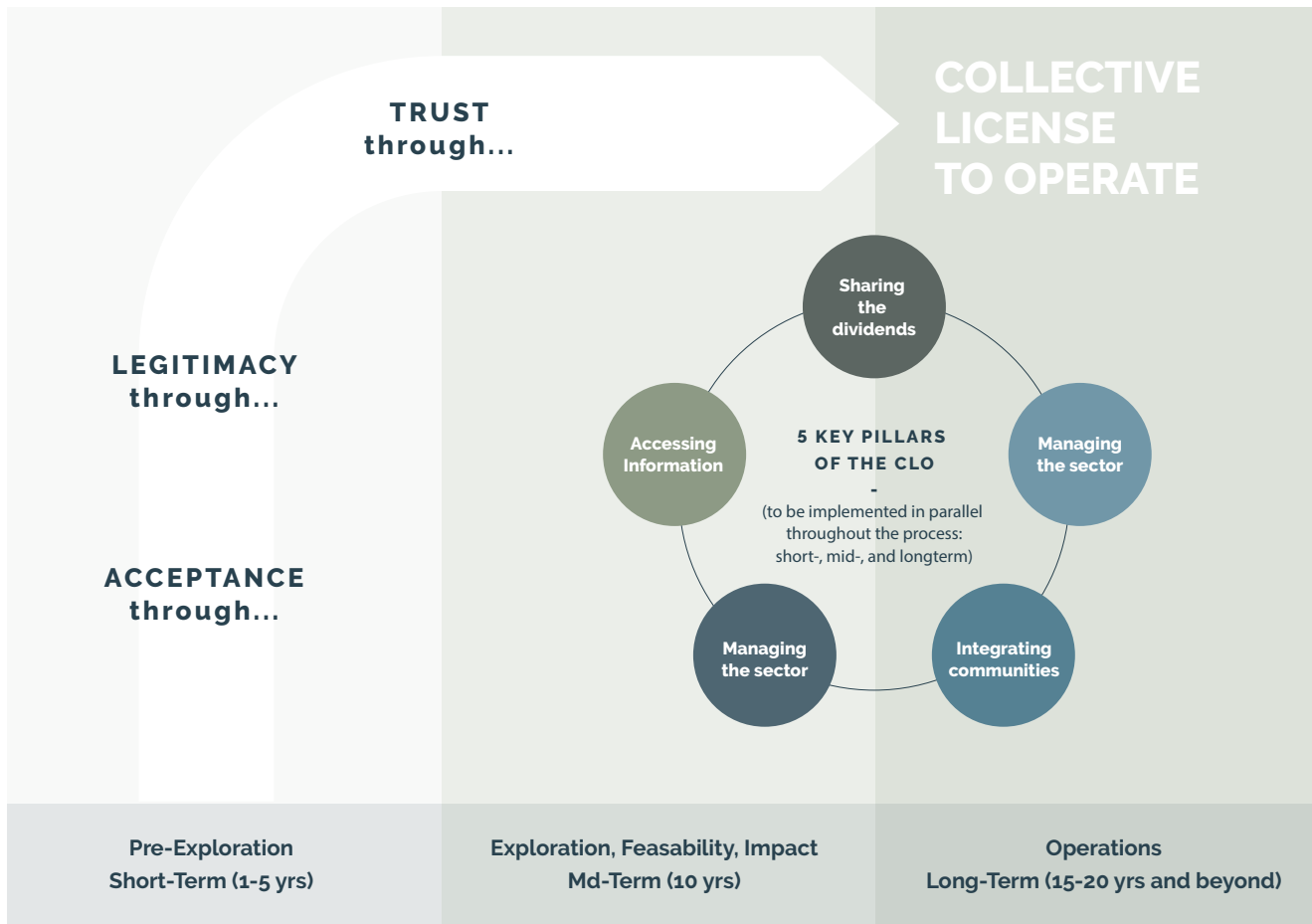


Figure 4. The Afghan Collective License to Operate

The sustainable development of the mining industry should rely on a system by which **short-term and long-term approaches would not be in competition**. The research team has identified three levels of the CLO, based on the challenges raised by EIDF stakeholders:

- The protection of the Afghan heritage and the integration of communities (to ensure **acceptance**)
- Information sharing and a transparent and sustainable management of the sector (to ensure **legitimacy**)
- Fair and straight forward dividend sharing schemes (to ensure **trust**)

These elements must be implemented in parallel and assorted with short, medium, and long term strategies, all corresponding to the various development phases of extractive operations: pre-exploration, exploration, feasibility and impact assessments, and operational implementation.

The development of the CLO will also impact some of the contextual issues faced by the GIRoA by decreasing insecurity (via the involvement of communities), corruption (thanks to more transparent regulatory conditions), and the scope for illegal mining activities (via the legalisation of existing

small scale operations and easier access to licenses).

The following table complements the findings presented in Section 8. Policy implications by presenting the main components of the Afghan CLO.

Fair and transparent regulatory basis addressing structural issues			Social, environmental, and cultural legitimacy	
SHARING INFORMATION	SHARING DIVIDENDS	MANAGING THE SECTOR AND ACTORS	INTEGRATING COMMUNITIES	PROTECTING AFGHANISTAN'S HERITAGE
<ul style="list-style-type: none"> <li>• Increase awareness and knowledge with clear mechanisms to access information for all</li> <li>• Decrease the gap between the individual expectations at a macro level and the effective outcomes of the development of the natural resources.</li> <li>• Develop a stakeholder database and frequently communicate on: <ul style="list-style-type: none"> <li>- Upcoming projects</li> <li>- Stages of contract negotiations</li> <li>- Successful and unsuccessful bids with clear justifications (according to the pre-set eligibility criteria) on how the reasons were selected (or not)</li> </ul> </li> <li>• Make use of multipliers by adopting a specific communications strategy, engaging with the media and identifying synergies with other institutional communications</li> <li>• Make use of the opportunity offered by the new and traditional media</li> </ul>	<ul style="list-style-type: none"> <li>• Implement local high impact development programmes, in consultation with local communities</li> <li>• Set up a sovereign fund in the medium run (see Section 8 for more details)</li> <li>• Develop set of rules to govern provincial development funds (see Section 8 for more details)</li> </ul>	<ul style="list-style-type: none"> <li>• Provide more safeguards against some of the endemic issues Afghanistan is facing (corruption, illegal mining, and indirectly, security) by reinforcing transparency (see Section 8 for more details)</li> <li>• Reinforce government oversight</li> <li>• Provide more legal certainties for the private sector (see Section 8 for more details)</li> <li>• Develop sustainable short-term/small-scale and long-term/large scale approaches</li> <li>• Increase support to micro to medium scale mining sector</li> </ul>	<ul style="list-style-type: none"> <li>• Active community engagement. Communities need to be better informed and empowered.</li> <li>• Increase the efficiency and level of enforcement of CDAs (see Section 8 for more details)</li> <li>• Capacity building and information sharing</li> <li>• Monitor social integration aspects (protection, basic services)</li> <li>• Improve education and vocational training in the mining sector</li> <li>• Develop a long term binding contract between the government (MoMP and local authorities) and local communities exposed to mining activities: <ul style="list-style-type: none"> <li>- Clearly define engagement objectives</li> <li>- Establish a formal engagement process</li> <li>- Assess specific risks and opportunities for local communities</li> <li>- Make sure engagements are relevant and contextualized</li> <li>- Build trust by associating partnering communities to the follow-up and monitoring procedures</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Responsible management of archaeological findings and the ecosystem through careful planning and relevant assessments at all stages of mining operations.</li> <li>• Raising awareness of environmental protection at government and community level via workshops and seminar</li> <li>• Raising awareness of the cultural heritage with the geological survey team.</li> <li>• Use of technology and mechanisms which have the lowest hazardous emissions</li> </ul>

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SAMUEL HALL.

## CONTACTS

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[info@samuelhall.org](mailto:info@samuelhall.org)

[www.samuelhall.org](http://www.samuelhall.org)