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Political Economy And Conflict Dimensions Of Afghanistan's Mineral Resources: A Preliminary Exploration

Summary

- Afghanistan has sizable underground mineral resources, which have potential positive economic impacts but also possible downsides—the so-called “resource curse” often involving negative macroeconomic, developmental, fiscal, governance, political and conflict effects.
- The success of the broader political transition in coming years as well as regional geopolitical factors will have a major influence on prospects for Afghanistan’s underground resources.
- For “mega-resources” such as the Aynak copper and Hajigak iron deposits, the Afghan government has conducted credible tendering to ensure that contracts with foreign companies are on favorable terms for Afghanistan.
- Good-practice approaches for mega-resources should continue and be further strengthened, but there will probably be further delays in exploitation, and realization of potential will take much time.
- Exploitation of other largish and medium-sized resources may involve joint ventures with politically-connected Afghan firms and deals with local strongmen, or sometimes criminal networks with linkages to corrupt officials and insurgents. Spreading patronage can reduce short-run conflict risks, but there are risks of corruption, and conflicts could arise over time.
- For these resources, priorities include transparent contracting and clarity about ownership of companies; setting basic financial parameters for different resources (e.g. royalty rates) to reduce the risk of overly favorable arrangements for extracting entities; and addressing criminal elements and associated corruption.
- For smaller, concentrated, high-value resources (notably gemstones), informal exploitation using crude techniques is typically combined with illicit export trade, and local strongmen are involved, which can mean periods of stability but also conflicts when bargains are reopened or new actors get involved.
- The way forward for these resources includes gradually improving and regularizing the framework; setting low royalty rates to encourage formalization of existing activities rather than leasing resources to outsiders; technical assistance to promote more effective extraction; and encouraging processing and value addition within Afghanistan.
- Finally, further analytical work is required to better understand the political economy and conflict ramifications of mining in Afghanistan.

“Mining must be seen in the context of the one-third century of protracted conflict in Afghanistan, the rise of a “war economy” and use of smaller and easily exploitable resources to fund fighting, as well as the resources themselves giving rise to violent conflicts for control over them . . . Understanding and mitigating adverse political economy and conflict implications of resource exploitation will be important for achieving positive outcomes in the future.”

Mining, currently a localized, largely informal, and mostly small-scale sector in Afghanistan, is widely seen as a potential leading economic growth driver and source of government revenues. Afghanistan is well-endowed with underground mineral resources, but not much systematic exploitation using modern technology has occurred, and exploration remains in its infancy. Linkages to other economic activities and substantial employment generation also are envisioned, with development of “resource corridors” exploiting multi-use infrastructure and regional transport and trading opportunities. The potential positive impacts on Afghanistan’s economy, jobs, budget and on regional development have been assessed by the World Bank and others.¹

Set against these potential benefits is the so-called “resource curse” often associated with underground minerals in countries lacking strong institutions and effective rule of law. Adverse *macroeconomic* (“Dutch Disease”), *developmental* (loss of comparative advantage in other sectors, environmental damage), *fiscal* (expenditure distortions, disincentives to mobilize other revenues), *governance* (risk of grand corruption, diversion of revenues, lack of accountability), *political* (undermining of social contract with and political accountability to the population), and *conflict* (grievances of have-nots, fighting over spoils) effects have been noted, to varying degrees in different countries.

Mining must be seen in the context of the one-third century of protracted conflict in Afghanistan, the rise of a “war economy” and use of smaller and easily exploitable resources to fund fighting, as well as the resources themselves giving rise to violent conflicts for control over them. Moreover, there are some common patterns of political economy and conflict implications with other natural resources (e.g. timber smuggling), illicit narcotics, and large off-budget aid and military contracts.

This paper discusses different categories of resources, and then puts forward some basic recommendations to help guide policy. The paper represents only a preliminary foray into this very important area.

A Differentiated Sector

Mega-resources. Identified very large, “world-class” resource deposits in Afghanistan include most notably copper at Aynak and iron at Hajigak, for which major mining contracts have been signed with foreign companies through credible tendering processes.² A number of factors taken together will probably further delay realization of the potential of mega-resources, although some sources of delay are unavoidable or in the interest of Afghanistan’s own development and governance objectives:

- These resources are concentrated and large, so it is in the interest and within the capabilities of the Afghan government to directly control them; this control is unlikely to be threatened by local forces or insurgents, but security problems may dampen foreign interest and delay exploitation.
- Modern technologies and large financial investments are required; foreign companies inevitably will be in the lead, entailing lengthy tendering and contracting exercises to determine arrangements.
- Regional countries are interested in these resources, both to invest in their exploitation (China in Aynak and India in Hajigak) and also as part of regional geopolitical competition involving countries like Pakistan and Iran.
- Exporting the products will require large investments in transport infrastructure and passage through neighboring countries.

- The government is rightly focused on transparency and accountability for these resources; this inevitably will result in delays, with however benefits for good governance and development.
- There are policy debates over approaches to exploiting these resources, whose sorting out may take time, as demonstrated by the recent discussion in the Afghan Cabinet about revisions to the Mining Law.
- Exploitation has substantial environmental and social impacts, requiring attention and time to mitigate them;³ failure to consult with concerned communities, or perceived abuses by mine security forces, could result in discontent, a degree of unrest, and further delays in realizing resource potential.⁴

A range of largish and medium-sized resources attractive for exploitation. Examples include northern oil basins, gold reserves, coal, chromite and others. These resources can be exploited relatively quickly with far smaller investments than required for the mega-resources, and some of them such as chromite are already being mined and exported illicitly by criminal networks with connections to both corrupt government officials and insurgent elements.⁵

Expanded exploitation sometimes involves joint ventures of foreign firms/investors with politically connected Afghan partners, as well as informal deals with local strongmen.⁶ Both carry risks of corruption, patronage and associated losses of state revenue. Foreign military interests may be advocates for some mining activities.⁷ However, given that there are significant “spoils” to spread around, pragmatic approaches and deal-making may reduce the likelihood of conflict in the short run.

Conflict easily could arise, however, particularly where criminal networks and insurgent elements are involved as in the case of chromite. Expansion of exploitation may mean more resource rents to fight over, a wider circle of strongmen becoming interested, and/or central political interests becoming more involved—all of which could be destabilizing. More generally, lack of a coherent overarching national political framework means that arrangements may be seen as short term and fragile, leading to bargains being re-opened and possible instability and violence.

Ongoing informal exploitation of small, locally-concentrated, high-value resources. These resources (most notably gemstones) are currently being exploited using artisanal and crude small-scale techniques. Products typically are exported illicitly, and processing usually occurs in other countries. In some cases (e.g. lapis lazuli, emeralds) they provided funding for resistance against the Soviet occupation and subsequently during the 1990s civil war,⁸ while in other cases (e.g. rubies at Jegdalek) they may currently provide funding for local anti-government groups.⁹

Local strongmen tend to control extraction of these resources, and patronage, corruption and conflict dynamics are driven at the local level. Such patterns are likely to continue given that it is unrealistic for the Afghan government to take direct control. Local control can result in periods of stability, but the jockeying of different interests, new actors coming on the scene, or other changes can lead to instability and conflict. Situations are often fluid and volatile reflecting “political marketplace” dynamics.¹⁰ The central government may try to become involved by supporting local proxies, which however can be destabilizing and precipitate conflict.¹¹

Government efforts to shift the export trade in these resources from informal/illicit to formal/licit channels may inadvertently create vulnerabilities to corruption, with part of taxes and customs duties getting siphoned away by corrupt officials. This appears to have happened in the case of lapis lazuli, although the situation may have improved more recently.

Policy Implications

In this complex, variegated political economy context for natural resource extraction in Afghanistan, specific approaches need to be differentiated across different types and sizes of resources, and different parts of the country. More generally, understanding and mitigating adverse political economy and conflict implications of resource exploitation will be important for achieving positive outcomes in the future. The success of the broader political transition in coming years will greatly influence prospects in this sector. The same is true of geopolitical factors: adversarial competition between regional countries playing out in Afghanistan could further delay development of mega-resources, and create continuing obstacles and distortions for smaller resources.

Good-practice approaches for mega-resources should continue and be further strengthened, ranging from transparent, competitive tendering processes to robust oversight of revenue flows, their capture in the budget, mitigation of environmental impacts, and appropriate responses to local stakeholders and social impacts. These processes cannot be rushed, and it must be recognized that realization of the potential from mega-resources inevitably will take much time. Systematic exploration is a priority.

Exploitation of lucrative medium-sized resources can move ahead quickly, as is already occurring, but transparency of contracting and clarity about ownership of companies is important. The recent publication of numerous mining contracts by the Ministry of Mines is a positive development in this regard. Setting basic financial parameters for different resources (e.g. royalty rates) may help reduce the risk of individualized, overly favorable arrangements for extracting entities. Where criminal networks are involved (e.g. in chromite smuggling), strong enforcement measures against illicit trade (coordinated across borders) and against associated corruption will be necessary.

The way forward for small but highly concentrated and valuable resources (e.g. gemstones) is to recognize local realities and gradually improve and regularize the framework for extraction. This calls for regularizing existing activities rather than leasing out resources to outsiders or foreign entities (which could lead to conflict), setting low royalty rates to encourage formalization and technical assistance to promote more efficient extraction. Corruption in the export trade must be addressed while shifting it from illicit to licit channels. Rather than focusing only on controlling and taxing the existing trade, the government should encourage processing and value addition for gemstones within Afghanistan.¹²

Finally, further analytical work is required to better understand the political economy and conflict ramifications of underground mineral resource exploitation in Afghanistan, both more generally and in the context of particular resources.

Notes

1. Gary McMahon and Brandon Tracy, *The Afghanistan Mining Sector as a Driver of Sustainable Growth: Benefits and Opportunities for Large-Scale Mining* (World Bank, 22 February 2011); World Bank, *Afghanistan in Transition: Looking Beyond 2014* (May 2012), Chapter 2.
2. Global Witness and Integrity Watch Afghanistan (IWA) have assessed these contracts.
3. Aynak, where there are also important cultural/historical heritage issues, and Hajigak are extensively discussed in IWA reports.
4. The U.S. Institute of Peace is partnering with IWA to support efforts to strengthen community monitoring of major mines in Afghanistan

ABOUT THIS BRIEF

William Byrd is a development economist and has worked on Afghanistan in various capacities over the past decade and longer. During 2002–2006, he was stationed in Kabul, Afghanistan, where he served as the World Bank's country manager for Afghanistan and then as economic adviser. He is currently a visiting senior expert at the U.S. Institute of Peace. This paper reflects some initial thinking on the mining sector, in the context of his broader interest in the political economy and conflict implications of sizable financial flows in Afghanistan, also including those generated by illicit narcotics and aid. The views expressed in this brief do not necessarily represent the views of the U.S. Institute of Peace, which does not take policy positions.

5. On chromite see, among others, Matthew Dupee, "Afghanistan's Conflict Minerals: The Crime-State-Insurgent Nexus" (CTC Sentinel, 16 February 2012).
6. For example, the Amu Darya oil basin, its contracting to a joint venture and disputes with a local power-holder are discussed in various news reports, among them *Reuters* (11 June 2012), *The Telegraph* (20 June 2012), and the *New York Times* (24 June 2012).
7. US military advocacy for the Qara Zaghan gold mining contract is discussed in "J.P. Morgan's Hunt for Afghan Gold" (CNN Money, 11 May 2011).
8. On lapis lazuli see Renard Sexton, *Natural Resources and Conflict in Afghanistan* (Afghanistan Watch, July 2012), Case Study 5; on emeralds see "Emeralds of Afghanistan" (*New York Times*, 12 March 2009) and "Rocks from a hard place" (*Financial Times*, 21 January 2011).
9. "Afghanistan's fabulous ruby mines plundered by thieves", BBC News Asia, 25 May 2012.
10. For a discussion of the "political marketplace" in Africa, see Alex De Waal, "Mission Without End? Peacekeeping in the African Political Marketplace" *International Affairs* 85(1): 99-113 (2009).
11. Lapis is a good example; see Sexton, op cit.
12. See *Assessment of Afghanistan Gemstone Industry*, Sibley International (June 2007).



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