

Afghanistan's mineral plan

Industrial Minerals February 2012

With its position at the heart of Central Asia, and significant mineral resources including lithium and rare earths, Afghanistan holds vast potential for attracting private sector investment, Vasili Nicoletopoulos reveals

Keywords: Afghanistan, lithium, rare earths, development



Clay deposits, used for the production of bricks, are located mainly in the central and western areas of Afghanistan.

Pictured are the Barchi brickworks.

Clive Mitchell, British Geological Survey

At an investors' forum organised by Euromines on investment opportunities and the economic future of Afghanistan, representatives of leading companies in the extractive industry, and other related international business sectors, came together with top representatives of the Afghanistan government to discuss the country's economic potential as well as reforms needed to make the country attractive for foreign investment.

Conference participants included representatives from 20 countries, institutions such as the US Geological Survey, the World Bank and NATO, and more than 40 international companies, including Anglo-American, Caterpillar, DynCorp, Ernst & Young, General Electric, HSBC, Lafarge Group, and Siemens.

Euromines is the European representation of the extractive industry. The organisation represents 42 different metals and minerals being mined in Europe and abroad and companies that employ 350,000 people in Europe. Its membership also includes many technology providers for the extractive industry.

Afghanistan potential

In the first session, Dr Thomas Drnek, president of Euromines, delivered the welcome address. He was followed by Ambassador Vygaudas Ušackas, head of delegation and EU special representative, Afghanistan, who spoke on the EU's increasing engagement on Afghanistan.

Ambassador Michael Steiner, special representative of the German federal government for Afghanistan and Pakistan, spoke on the international Afghanistan conference held in Bonn, December 2011, underscoring the importance of this forum on the role of the private sector on the road to the Bonn conference.

Steiner called on the business community to help build a lasting peace in Afghanistan through investment.

Dr Omar Zakhilwal, minister of finance, Afghanistan, discussed 'Fiscal regimes for companies in Afghanistan - incentives for investment in mining and other sectors'. The Minister was followed by Dr Corina Hebestreit, director of Euromines, who made suggestions on a framework proposal for the involvement of the EU mining industry in Afghanistan.

Session 2 focused on the economic framework for the extractive sector of Afghanistan. The speech by Wahidullah Shahrani, Afghanistan's minister of mines, examined the outlook for the country's mining industry - covering aspects such as the legal framework, mining code and infrastructure. His key points included:

- The mining sector is the key driver of sustained economic growth and fiscal sustainability;
- Efficient and transparent management and utilisation of mineral resources is a top priority;
- Under the new business plan the role of government has been defined as a policy-maker, regulator and facilitator for the promotion of the mining industry;
- The mining sector will be developed through 100% private sector contribution and investment;
- The government strongly encourages the development of the sector through vertical integration.

Shahrani emphasised that his country had already developed the following policies: a national mining policy, an environmental policy for the mining sector, and a communication policy. In addition, Afghanistan has issued framework policies on gemstones, marble, chromite, construction materials and coal materials. Policies under consultation include those on lithium and rare earth elements (a strategic minerals policy), precious metals, base metals, industrial metals, oil and gas, and a mines revenue policy/fund.

Minister Shahrani presented diagrams on the overall mineral potential of Afghanistan and the development timeframes. Focusing on rare earths, the minister outlined the Khanneshin deposit in Helmand province, where there is an estimated 218m tonnes grading 2.77% LREE (Type 1), and 15m tonnes grading 3.28% LREE (Type 2), estimated to a depth of 150 metres.

The geology of the deposit grades between Type 1 - semi-concordant bands and veins in alvikite - and Type 2 - discordant dykes and sheets enriched in fluorine or phosphorous. The ores include khanneshite, monazite and synchysite.

On lithium, where “Afghanistan has the potential to become the Saudi Arabia for lithium,” according to the USGS in 2010, Minister Shahrani emphasised the important role that Li brines could play in Afghanistan. Li, B, Rb, and Cs brines have all been recorded in the country and, as Shahrani revealed, the salt lakes in the country have a similar altitude, area, evaporation rate and geology to those in the Li triangle of South America.

Lake Ab-i-Estoda, Lake Dashte Nower (near Ghazni), Lake Namaksar (Heart), Chakansar (Nimroz) and Gowde Zereh (Helmand) have the highest potential. The US DoD in 2011 estimated a total resource of 350,000 tonnes of Li in Afghan lakes.

Production of Afghan mineral commodities (estimated)	
Mineral	Output (tonnes)
Coal, bituminous	725,000
Salt, rock	186,000
Gypsum	63,000
Cement, hydraulic	36,000
Marble	29,000
Chromite	6,000
Barytes	2,000

Resource endowment

Dr John Groom from the International Council on Mining and Metals (ICMM), elaborated on the subject of resource endowment - providing experiences from other parts of the world. Groom introduced ICMM, its vision, values and goals, member commitments, work programmes, resource endowment (mining partnerships for development) and ICMM’s good practice guidance.

A set of presentations on investing and doing business in Afghanistan, the country’s infrastructure and trade, also followed. Tom Niemi, representing several institutions including as chairman of the Geological Survey of Finland (GTK), chairman and partner of Raw Materials Group, and CEO of Ab Marsuppium Oy, spoke about good practice and the actions taken by the Ministry of Employment and Economy.

These include Finland taking a leading role in Europe’s mining cluster, starting a mining fund/funding programme, supporting the Geological Survey of Finland, changing the law covering export/import finance, development of infrastructure (rail, harbours) and a strong focus on education.

Sadat Nadery, speaking about investing and doing business in Afghanistan, presented SMN Investments - a privately held group of companies with a major market presence across various economic sectors in Afghanistan since 2000. Among the group’s principal capacities is its mining arm Afghan Gold & Minerals, which is developing the Zarkashan gold deposit with the assistance of Morgan Stanley.

Other SMN activities include financial services and insurance, transportation and logistical services, construction, design and engineering. SMN has pioneered the insurance industry in Afghanistan and is the only fully-licensed private insurance company. It has secured over \$20bn in reinsurance commitments from the London market and recently delivered coverage for Aynak Copper Mine, a \$3.6bn investment.

Mark Rachovides from European Goldfields Ltd presented a ‘mining company’s investment checklist’, ie. what to look for from licences, due diligence to corporate structure to reporting obligations.

Development framework

The third session was devoted to the legal and development framework, led by Abdul Hadi Arghandiwal, Afghanistan’s minister of economy.

Michael Stanley of the oil, gas and mining division of the World Bank outlined the organisation’s natural resource and economic development programme with Afghanistan, focusing on the collection and dissemination of geodata, implementing ‘good fit’ laws and regulations, strengthening institutions and absorptive capacity, and enabling investment drivers.

These included open access, public-private infrastructure, gaining right-of-way, structuring risk mitigation instruments, strengthening regional trade and commerce interconnects, public financial management of EI revenues, building absorptive capacity to integrate public and private sector investment/development plans, building enterprise development capacity for jobs around competitive industries, and strengthening social mobilisation for improved service delivery.

Legal requirements for mining companies were covered by Patrick Alley, director of Global Witness, Mir Akbar Akbari from the UK Afghanistan Business Organisation, and Matthew Scanlon of the Aga Khan Fund for Economic Development.

Mineral opportunities

The USGS’s Dr Jack Medlin, discussing Afghanistan’s mining potential, emphasised that, using baseline information collected by the Soviet Union and the Afghan Geological Survey, extensive research was carried out by the USGS in coordination with the DOD and the Afghanistan government, resulting in volumes of information about areas of high mineral potential.

These resources include copper, lithium and rare earths. Many of these Afghan mineral priority areas, including the rare earth-rich Khanneshin, are world-class resources that could lead to significant commercial development.

“The mineral resources in Afghanistan have the potential to completely transform the nation’s economy. This important work by the USGS will be a powerful tool for those attempting to accurately evaluate potential investments in Afghanistan,” Medlin outlined.

In total, the USGS studied 24 formations, the most prominent being the giant copper and cobalt deposits near Kabul, the iron-rich areas in central Afghanistan, the copper and gold resources in south-eastern Afghanistan, and rare earth deposits in Helmand

province in southern Afghanistan. Many other precious and base metals as well as industrial mineral deposits also are highlighted in the newly released reports.

In addition, the USGS studies made unprecedented use of imaging tools. With assistance from the Department of Defense and the Afghan Geological Survey, the USGS has mapped more than 96% of Afghanistan using hyperspectral imaging more than any other country in the world.

The reports for the 24 mineral formations contain a suite of information, including geochemical analyses of rock samples for mineral concentrations, satellite and airborne remote sensing, airborne geophysics, and other analysis techniques.

Damian Brett of Raw Material Group discussed 'The mining potential of Afghanistan: a global comparison'.

In the session on 'How to turn potential into reality', Vasili Nicoletopoulos of Natural Resources GP, and member of the Steering Committee of Euromines, delivered a presentation on 'Evaluating natural resources, the case of Afghanistan: rare earths to renewables'.

Nicoletopoulos presented criteria and methodology for evaluating, from the viewpoint of a foreign investor, the potential of a country, its mineral resources, its energy resources with an emphasis on renewables and analysed the close links between energy and minerals. He then presented the following figures on how Afghanistan ranks in terms of Doing Business 2012:

- Starting a Business: 30
- Dealing with Construction Permits: 162
- Getting Electricity: 104
- Registering Property: 172
- Getting Credit: 150
- Protecting Investors: 183
- Paying Taxes: 63
- Trading Across Borders: 179
- Enforcing Contracts: 161
- Resolving Insolvency: 105

As for the fiscal regime, Nicoletopoulos stated that incentives for investment in mining and other sectors are fine, but there also other important factors at play; the essential pillars being market, infrastructure, finance and people. He urged the country to symmetrically develop quarries, mines, metallurgy and renewable energy.

Overall development steps should start with actions by international agencies and the local government to establish security, infrastructure and legislature (mining, energy, fiscal, environment/health/safety). Only then will investors follow - Western but also Chinese and Indian, while locals by themselves could undertake smaller projects.

In the international context, the world economic situation is problematic, including tight financing, Nicoletopoulos commented. On the other hand, China is limiting its exports of raw materials, hence Afghanistan could (partly) fill the gap. 'Western' foreign investors need the (still missing) rule of law, clear fiscal/ administrative/ legal/ court (environmental?)/ procedures.

The principle of 'high risk, high reward' applies to the country. Afghanistan needs the whole range of projects: small, medium, large. The country also needs infrastructure (physical, other) and the role of the World Bank and NATO is crucial. Nicoletopoulos outlined that much more plentiful energy is essential, including renewables and microgrids. People, especially professionals, will be increasingly needed, as so will financing and insurance for political risk. Partnerships of the locals with (Western) foreign investors as well as with those from neighbouring countries will prove indispensable.

Hence, the methodology for change must be gradual, with confidence-building steps, until a tipping point is reached. There is no need for extreme perceptions: the country's natural resources are neither 'nothing' nor an 'Eldorado'. Everybody concerned must realise that this is not a 100m sprint race, it is a marathon!

Conclusions

With its position at the heart of South and Central Asia, entrepreneurial spirit, and impressive deposits of copper, iron, gold, lithium, rare earth elements, and other natural resources, Afghanistan holds significant potential for attracting the private sector investment necessary to create diversified economic growth and jobs and broaden the government's revenue base.

Development of the natural resources sector and growth in the broader economy should reinforce each other and gradually put Afghanistan on strong economic feet. To unlock this potential, the Afghanistan government must act decisively in nine key areas to create an improved business climate, Euromines president, Dr Thomas Drnek, outlined in his presentation. These areas are:

Security: Stabilisation of the security situation is an essential pre-condition for more foreign investors to become interested and active in Afghanistan. The performance and professionalism of the Afghan National Security Forces, particularly in areas where they have taken over security responsibility, will be a key determinant of whether prospective investors gain the confidence necessary to consider investing in Afghanistan.

The Ministry of Mines has presented a proposal for the government to provide forces for securing industrial installations. This proposal should be followed up and implemented as quickly as possible.

Transparency: Transparent, competitive, and non-discriminatory tendering and bidding processes are a crucial requirement for attracting and building trust with international investors. Currently, Afghanistan ranks near the very bottom of Transparency International's Corruption Perception Index. To become more attractive for international investors, Afghanistan must significantly step up enforcement of its laws against corruption.

Afghanistan's candidate status under the Extractive Industries Transparency Initiative (EITI) is a welcome sign of its commitment to transparency; it should seek to achieve 'compliant country' status as soon as possible.

Rule of Law: International investors must have the confidence that their investments will be protected by an independent legal system based on the rule of law and safe from arbitrary government action. The capacity of the justice system to apply the law consistently and fairly, handle claims and appeals efficiently, and enforce its decisions must be strengthened. Mediation and arbitration tribunals for dispute resolution should be further developed and their authority strengthened. Capacity building for institutions is crucial.

Legal and Regulatory Framework: Laws and regulations governing private sector activity should be clear, transparent, and streamlined to reduce bureaucracy and discretionary decision-making to a minimum.

The revised Minerals Law represents a further strengthening of the legislative framework, aligned with international good practices. The proposed amendments (already submitted to the Ministry of Justice) need to be adopted to correct deficits in the law. For example, on security of tenure, prospecting, exploration, and extraction should be bid for at the same time, in a single process, as the lack of an automatic transition from costly exploration to extraction is unattractive for the industry.

The mining regulations should be further strengthened, streamlined, and aligned with legal procedures. Furthermore, protection from expropriation must be reinforced to increase investor confidence across the life of the operation.

Fiscal Regime: Taxes and royalties need to be transparent, predictable, stable over the long term, and stipulated by appropriate laws and regulations. While the government is understandably interested in increasing its revenue, a single-minded focus on maximising revenue in the short term is more likely to drive off prospective investors and reduce the potential for stimulating growth in related sectors.

Afghanistan's tax rates are internationally competitive, but current royalty levels are far higher than in other countries (in some cases four to five times higher), making many potential projects unattractive.

Infrastructure: While considerable progress has been made in the development and modernisation of Afghanistan's infrastructure, significant gaps remain in the areas of transport and logistics, energy production and distribution, and water supply. Development should implement the resource corridors approach, combining key infrastructure elements such as road, rail, and energy, which are especially important for the development of the mining sector.

Establishment of the relevant regulatory authorities and development of their capacity, for example a national railway authority, should be one of the priorities. Policy is also needed on public-private partnerships, specific to the development of the extractive industry.

Land Use: Although the Afghanistan government has already done much to strengthen the practices of land acquisition, resettlement, and compensation, the system for the issuing and the management of land titles remains cumbersome and in need of modernisation. The government should facilitate access to land by clarifying property rights, simplifying procedures for the transfer of titles, and allowing longer-term leases.

Labour: The development of a skilled indigenous labour force is the basis for economic diversification and can make Afghanistan a more attractive destination for international investors and increase the potential employment benefits of such investment.

Afghanistan should establish a coherent policy to guide professional and vocational education, linked to the overall higher education strategy. The government, together with the international community, should strengthen vocational and professional education to meet growing current needs, while making parallel investments in the basic and higher education systems which will yield long-term results.

Financial Sector: Economic development cannot take place without a healthy financial sector. Development of the sector should focus on increasing access to credit and financial services and strengthening oversight to increase confidence in the banks.

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