

Chapter 14

Rural development and food security

14.1 Conflict not only takes human life but destroys food and water sources, such as irrigation systems; degrades the land; and disrupts markets. According to ActionAid, the three decades of war in Afghanistan has meant that the agricultural sector 'has been neglected completely changing from a major source of exports to subsistence level production'.¹ Afghan farmers have not only endured decades of war devastating their food producing capabilities and depleting critical seed stock, but are also subject to a harsh climate and highly vulnerable to natural disasters especially prolonged droughts.² The committee has referred to the importance of ensuring that Australia's aid to Afghanistan is well targeted and in sectors where Australia is best placed to make a positive contribution. In this chapter, the committee considers Australia's contribution to assisting Afghanistan rehabilitate its agricultural sector and develop its mining industry.

Land use in Afghanistan

14.2 Afghanistan is a highly agrarian society with about 80 per cent of the population living in rural areas. Yet only a fraction of the land is suitable for agriculture with the mountainous terrain meaning that 'vast tracts of land cannot be irrigated or cultivated'.³ According to ACIAR, approximately 8 million Afghan farmers depend on crop-livestock production systems for their livelihood. Save the Children, Oxfam and World Vision drew attention to the vulnerability of many of these farmers. It stated that subsistence farmers make up half of the population that depend on agriculture as their main livelihood source and are 'greatly exposed to seasonality and unable to maintain their livelihoods for up to half of the year'.⁴

14.3 Raising livestock is also essential for rural Afghan families that keep small ruminants and dairy cows as a source of income and for insurance in times of need, crisis, or celebration.⁵ ACIAR noted that in Afghanistan 'forage of sufficient quality for livestock has always been a limited resource and worsens during years of drought'.⁶ Indeed, with regard to livestock, ACIAR informed the committee that for much of the year, the animals are in very poor condition and not only suffer from a

1 *Submission 11*, p. 11.

2 See for examples comments by Adel-El-Beltagy, Director General, ICARDA, in The Robert S. McNamara Seminar: Agriculture, Growth and Human Security, The Role of Agriculture and Agricultural Research in Generating Growth and Post Disaster Reconstruction, Transcript, 2 July 2003, p. 28.

3 Save the Children, Oxfam and World Vision Australia, *Submission 6*, p. 17 and ActionAid, *Submission 11*, p. 10.

4 *Submission 6*, pp. 17–18.

5 *Submission 1*, Attachment A, p. 1.

6 *Submission 1*, Attachment A, p. 1.

shortage of quality fodder but also of roughage. They also carry quite a significant burden of parasites.⁷

14.4 Even allowing for Afghanistan's difficult environment, the country's yields are very low at the moment and its rural areas are producing only a fraction of their potential. The ADB noted that the growth in agricultural production of cereals, fruits and nuts, and livestock has failed to keep up with Afghanistan's overall growth in population. Agriculture's share of GDP over the period 2002–2010 fell from the equivalent of 30 to 15 per cent and, in recent years, Afghanistan has had to import food with some provinces requiring food aid due to shortages. The sector's poor performance is a serious problem for the country, because, according to the ADB's evaluation, 'an estimated 85% of the population depends directly or indirectly on agriculture and agricultural products, which also account for about half of all exports.'⁸

Summary

14.5 Although security is the main priority in a number of Afghanistan's provinces, overall agriculture rates as one of the country's top concerns. This high rating reflects the sheer number of Afghans who rely on agriculture for their livelihood.

14.6 Whatever the future holds for Afghanistan, agriculture will be central to its prosperity and the wellbeing of its people. Its importance to the welfare of Afghans will be even greater should the country suffer any setbacks on its road to recovery. Thus, helping Afghanistan to achieve sustainable improvements in agriculture must be a priority for donor countries, especially for Australia, which has proven research skills and expertise in this area of arid and semi-arid agriculture.

Australia's contribution

14.7 ACIAR anticipated that improved germplasm combined with better agronomy or crop management could increase yields significantly and therefore improve household food security and income in Afghanistan.⁹ Improved, reliable and greater wheat production would not only decrease reliance on costly wheat imports and international food aid efforts but also contribute to food security, income generation and rural employment opportunities.

7 *Committee Hansard*, 3 December 2012, p. 33.

8 ADB, *Islamic Republic of Afghanistan*, Country Assistance Program Evaluation, Independent Evaluation CE–28, 2012–2013, paragraph 22.

9 *Committee Hansard*, 3 December 2012, pp. 32–33.



Afghanistan's agricultural sector has been neglected 'changing from a major source of exports to subsistence level production'.

14.8 Australia occupies a reasonably unique position as a developed economy that shares many of the ecological, climatic and soil conditions of arid and semi-arid conditions found in Afghanistan.¹⁰ Also ACIAR, a well-established Australian agriculture research institute, 'can work alongside developing countries in addressing some of their priorities'.¹¹

14.9 The committee has noted the work that ACIAR and AusAID have done to promote agriculture in Afghanistan. ACIAR's assistance to Afghanistan goes back many years starting in 2002, when it supported its first multilateral project in Afghanistan, led by the International Maize and Wheat Improvement Center. The project was seeking to deliver better suited wheat and maize cultivars. Initially, AusAID provided funding to the project named 'The Seeds of Strength' for two years commencing in July 2002.¹² During this project, NGOs distributed wheat, together with fertiliser, to 9,000 farmers in four provinces. ACIAR reported that the new varieties of wheat had yielded up to 5 tonnes per hectare and better, 'almost double the yield of locally favoured varieties'.¹³

14.10 The *Independent Review of Aid Effectiveness* cited Australian support to Afghanistan's farmers as a notable achievement. It noted that Australian aid had helped 'identify and promote better wheat and maize varieties; yields have increased by more than 50 per cent and were expected to increase total production by more than \$100 million'.¹⁴

14.11 Even so, witnesses, including a number from NGOs that recognise the primacy of agriculture in Afghanistan, highlighted the importance of accelerating agriculture and rural development to help eradicate extreme poverty and hunger in Afghanistan (MDG 1).¹⁵ ActionAid observed that after ten years of direct intervention by the international community, there was still little recognition of how critical Afghanistan's agricultural sector was for this country's development.¹⁶ Caritas noted:

Due to increasing insecurity and Afghanistan's recurrent exposure to hazards such as drought and flooding, a vast majority of the country's 30.4 million people are chronically or acutely vulnerable. As many as three million individuals are affected by natural disasters, including 2.8 million by recurrent drought. In this context food security is a primary concern for many Afghans especially for the 85% who rely on agriculture for their livelihoods.¹⁷

10 *Committee Hansard*, 3 December 2012, p. 31.

11 *Committee Hansard*, 3 December 2012, p. 31.

12 *Submission 1*, p. 2 and ACIAR, *Annual Report 2002–03*, p. 53.

13 ACIAR, *Annual Report 2003–04*, pp. 67–68.

14 *Independent Review of Aid Effectiveness*, April 2011, p. 155.

15 Caritas Australia, *Submission 10*, p. 2 and Save the Children, Oxfam and World Vision Australia, *Submission 6*, pp. 17–18.

16 *Submission 11*, p. 9.

17 *Submission 10*, p. 2.

14.12 The importance of intensifying the effort in this area is underscored by some troubling trends including changing climate (less rainfall and higher temperatures) and land degradation. According to Save the Children, Oxfam and World Vision:

The most vulnerable groups to climate change in Afghanistan are poor farmers and pastoralists that are least able to adapt to changing conditions. Meanwhile, as a result of both drought and increased poverty, coupled with poor natural resource management, the availability of wild food resources has also been strained, and supplies have been overharvested, further degrading land.¹⁸

14.13 In their view, these projections call for a reconsideration of existing agricultural approaches in Afghanistan to foster economic growth and build the resilience of communities to adapt to the effects of climate change. The three NGOs noted that 40 per cent of arable land was currently used for the production of cereals, predominantly wheat. Although wheat is a high-value crop, they suggested that it was important to reconsider its dominance given that the crop is highly water-intensive. They recommended that further research be conducted into new or improved varieties of crops, including wheat, chickpea, lentil, barley and mungbean, particularly pulses and beans, that provide higher yields than local varieties, require less water, are nitrogen-fixing, provide feed for animals and are edible by humans. This would also help address nutrition deficiencies.¹⁹

14.14 Dr Bizhan also argued that agriculture requires more attention. He noted that Afghanistan is a country that is facing many challenges in this area because only 12 per cent of the land is arable and the climate is dry. In his view, Australia could share its experience at macro level and at policy level.²⁰ Uruzgan in particular could benefit from a greater concentration of effort on its agriculture (according to the ANDS, the province's top priority is security, followed by governance then agriculture). The TLO report noted that Uruzgan is beset by droughts and poor irrigation systems which make it difficult for farmers to count on reliable harvests and grow enough produce to sell surpluses in the market. The report noted, however, that most development money spent in the province continued 'to be spent on indirect economic expansion through the improvement of basic infrastructural elements such as roads, schools, and clinics rather than on direct investment in the local agrarian economy'.²¹

Summary

14.15 The committee supports Australia's funding in the agriculture sector and recommends that as Australia's projected aid contribution to Afghanistan increases that agriculture remain a priority. Further, the committee suggests that ACIAR in

18 *Submission 6*, p. 18.

19 *Submission 6*, pp. 17–18.

20 *Committee Hansard*, 4 December 2012, p. 23.

21 TLO, *Uruzgan: 18 months after the Dutch/Australian Leadership Handover*, A TLO Provincial Profile, April 2012, p. 28.

collaboration with international and national NGOs give fresh thought to how they can best help the farming sector in Afghanistan manage changing conditions.

Distribution and accessibility

14.16 A number of witnesses not only wanted to see an increased effort in assistance to farmers and a renewed way of thinking about Afghan farming systems but wanted existing problems with delivering current assistance addressed. In particular, they argued that attention should be given to ensuring that the poorer farmers were able to take full advantage of the benefits of research, education and improved infrastructure.

14.17 Save the Children, Oxfam and World Vision referred to employing better methods of distributing improved seed varieties and fertilisers. Notably, they stressed the importance of ensuring that in Afghanistan the rural poor have equitable access to seeds and fertilisers. The three NGOs noted:

One of the significant criticisms of the Ministry of Agriculture, Irrigation and Livestock (MAIL)'s current seed distribution program is that it is only accessible to medium-large sized farmers who have the means to purchase subsidised packages, thereby failing to support poor farmers.²²

14.18 They suggested that the Afghan Government work with NGOs to identify appropriate ways to reach the poorest households in remote and insecure areas.²³

14.19 ActionAid also stated that food security and distribution continued to be a major problem and both were sources of 'vulnerability for the Afghan people'.²⁴ The organisation's Country Director for Afghanistan, Mr Krishnan, informed the committee of his concern about farmers' access to seed stock. He explained that the government requires farmers to buy seeds from government-certified depots only, but that a poor farmer cannot afford to buy seeds from the centres. Furthermore, when no stock is available in the depot, the farmer cannot sow his own seeds. Mr Krishnan could not understand this 'strange policy' whereby a farmer is not allowed to grow his own seeds but must buy the seeds from a certified seed company.²⁵

14.20 ACIAR provided the committee with additional information on the seed centres.

There were more than 100 local seed multiplication companies in 2012 which multiply registered seed, predominantly of wheat, received from the parastatal Improved Seed Enterprise and sell the resulting certified seed to the National Seed Board which organizes subsidized distribution of certified seed to farmers, largely supported by donors...Recent policy discussions have emphasised a gradual shift from the public sector system dominated by the National Seed Board towards a free market system.²⁶

22 *Submission 6*, p. 18.

23 *Submission 6*, p. 18.

24 *Submission 11*, p. 9.

25 *Committee Hansard*, 4 December 2012, p. 58.

26 Answer to written question on notice no. 3.

14.21 According to ACIAR, its sustainable wheat and maize improvement project seeks 'to enhance the supply of improved seed varieties and “examine ways in which community multiplication for wheat seed and improved wheat seed could be strengthened”'. It informed the committee that this objective recognises that distribution channels in Afghanistan are inadequate and options for improvement will be considered. It noted further, however, that at present its key focus was on 'the research and development of improved seed varieties, together with more efficient wheat crop husbandry practices'. The Afghan government's policy on seed access was not a primary focus of ACIAR's project.²⁷

Summary

14.22 Outreach is central to the success of programs designed to help farmers benefit from research and must be an integral part of program design, implementation and evaluation. If farmers have difficulty gaining access to the advanced lines and improved varieties of seeds produced through projects such as the wheat and maize improvement project, then the project is incomplete—it is failing.

Train the farmers

14.23 Save the Children, Oxfam and World Vision noted further that as well as providing support for improved seeds, it was important to 'train farmers in improved farming techniques to increase crop yields in a sustainable manner'.²⁸ Mr Krishnan added that most donor support had gone into building systems in Kabul, but had not percolated down to the people on the ground. Aside from the NSP other programs tended to be centred in Kabul and therefore do not reach the grassroots.²⁹

14.24 He gave an example based on ActionAID's experience in the northern provinces where the organisation created what it called 'barefoot agricultural trainers'. Under the project, young, qualified, interested farmers from the community were chosen and underwent intensive training on different types of farming. According to Mr Krishnan, the young farmers are now back in the community and advising other farmers and the results 'have been wonderful'.³⁰

Women in agriculture

14.25 The third matter that Save the Children, Oxfam and World Vision highlighted was the importance of designing agricultural programs to encourage greater participation of women. They noted studies showing that women were more likely than men to invest in their children's health, nutrition and education. As a consequence, they argued that:

Agricultural interventions that increase women's income and their control over resources can dramatically increase the potential for positive child

27 Answer to written question on notice no. 2.

28 *Submission 6*, p. 18.

29 *Committee Hansard*, 4 December 2012, p. 58.

30 *Committee Hansard*, 4 December 2012, p. 59.

nutrition and health outcomes, and the results are most pronounced among the lowest income groups.³¹

14.26 The three NGOs cited the governance model established under the NSP, managed by the Ministry of Rural Rehabilitation and Development and implemented through local and international NGOs. They explained:

Under the NSP, each village establishes a gender-balanced community development council through a democratic process. Each community development council must plan, manage and monitor its own development projects in consultation with the village community, with an emphasis on the participation of women in decision-making.³²

14.27 The committee has noted the success of this program. Importantly, with regard to agriculture, the three NGOs noted that an independent evaluation of the NSP indicated that it had led to increased involvement of women in local governance and suggested replicating the model as a means of harnessing greater participation of women in the design of agricultural programs.³³

Disaster reduction and management—building resilience

14.28 A number of witnesses also mentioned the importance of increasing donor commitment to disaster risk reduction at the community level. Mr Poulter stated that there can be 'a diversion of attention, with the focus, understandably, on stabilisation and strengthening of government'. He indicated that sometimes the humanitarian crisis in Afghanistan can be ignored.³⁴

14.29 Caritas drew attention to the vulnerability of a great many Afghans to the effects of natural disasters. It suggested that while humanitarian work should be resourced adequately, it should be accompanied by an expansion of disaster preparedness and disaster risk reduction activities in order to build the resilience of communities.³⁵ ActionAid stated that drought and other natural disasters had caused major food insecurity in the country—a problem that had existed since the start of international involvement but one that requires much greater attention.³⁶ According to Mr Krishnan:

In Afghanistan, the problem is the small disasters that hit almost on a regular basis. We have not had a widespread, huge, massive disaster in spite of being in an earthquake zone. What we have had are floods that affect three districts, four districts. At those times, the donor interest is also much less because there is not enough size to the disaster; there is not enough

31 *Submission 6*, p. 20.

32 *Submission 6*, p. 20.

33 *Submission 6*, p. 20.

34 *Committee Hansard*, 4 December 2012, p. 36.

35 *Submission 10*, pp. 2 and 4 and *Committee Hansard*, 4 December 2012, p. 50.

36 *Submission 11*, p. 10.

media interest in that. So people have to cope with the disasters themselves.³⁷

14.30 ActionAid noted that although billions of dollars had been sunk into different agricultural programs, people remained concerned about achieving durable long-term solutions for natural disaster management such as tackling issues of drought.³⁸ In its assessment, current efforts in the agricultural sector were 'scattered, uncoordinated and had a piecemeal rather than sectoral approach based on a broader vision'.³⁹ Mr Krishnan referred to the Afghanistan National Disaster Management Authority but suggested that at the provincial level there was no understanding of disaster response or disaster reduction. He stated:

They are totally disconnected from Kabul. Whereas, at the Kabul level, they are getting support from the UNDP, their Director-General is flying all over the world on a monthly basis, but they have no understanding at the grassroots level.⁴⁰

14.31 Mr Naeem noted that currently donors in Afghanistan focus less on environmental protection and preservation and suggested that Australia assist in this 'cross-cutting issue'.⁴¹

Committee view

14.32 With its considerable experience and increasing expertise in this area of dry land agriculture, Australia is well placed to continue its significant role in assisting Afghan agriculturalists, including its poorer farmers, to improve the productivity of their land. The committee notes the three areas identified as having the potential to give greater momentum to the benefits already accruing from international assistance in the area of agriculture:

- improved accessibility for poorer farmers to the benefits of research;
- emphasis on training farmers; and
- inclusion of women in every facet of improving agricultural production including the nutritional content of the produce.

14.33 The committee is of the view that Australia's assistance to Afghanistan in the food security sector pay close attention to these areas.

14.34 The committee understands that ACIAR funds multinational organisations to deliver its aid. Even so, the committee believes that through its links to, and support of, relevant centres such as ICARAA, Australia can advocate that, while high level research needs to have practical application, assistance programs also need to ensure

37 *Committee Hansard*, 4 December 2012, p. 59.

38 *Submission 11*, p. 10.

39 *Submission 11*, p. 11.

40 *Committee Hansard*, 4 December 2012, pp. 58–59.

41 *Submission 5*, p. 1.

that poorer farmers have access to, and training in appropriate use of, new, improved crop varieties and technologies.

Recommendation 14

14.35 The committee recommends that the Australian Government ensure that as Australia's ODA increases in the coming years that the funding in the area of food security and agriculture increases proportionately.

Recommendation 15

14.36 The committee recommends that AusAID and DFAT use their influence with the Government of Afghanistan, relevant line ministries and major multilateral organisations delivering agricultural assistance to reinforce the importance that such assistance:

- ensures that poorer farmers have affordable and easy access to seed centres and appropriate technologies;
- takes account of the need to train farmers, especially those in the poorer communities, to apply the benefits of agricultural research and development;
- involves women in all aspects of aid funded agriculture projects to enable women and their families to benefit from reforms in agriculture; and
- includes disaster risk management, especially building the resilience of poor Afghan farmers to withstand natural disasters, as a necessary component.

14.37 The committee recommends further that the four principles identified above are given priority when designing, planning and implementing Australian-funded agricultural projects in Afghanistan.

Recommendation 16

14.38 The committee also recommends that the Australian government provide direct support for agricultural development programs based on the four principles in recommendation 15.

Opium cultivation

14.39 In the context of agriculture in Afghanistan, a number of witnesses were concerned about the level of recognition given to opium cultivation and its importance to the country's economy.

Dependency

14.40 Opium has become Afghanistan's leading economic activity and accounts for almost 90 per cent of the world's production.⁴² According to a World Bank study,

42 Islamic Republic of Afghanistan, *Afghanistan National Development Strategy, 1387–1391(2008–2013), A Strategy for Security, Governance, Economic Growth and Poverty Reduction*, p. 5.

opium is Afghanistan's most important agricultural crop by value and provides much-needed livelihoods for many people in rural areas. While the cultivation of opium may bring short-term gains for the rural population, it distorts incentives to develop a sustainable formal agriculture sector in the long run. In addition, the large criminal profits of the drug industry 'undermine governance, fuel corruption, nurture dysfunctional politics, and ultimately stimulate insecurity and conflict'.⁴³ While removing economic reliance on opium is a development priority for Afghanistan, its importance as a high-value, storable commodity with a ready market and a secure cash crop, means that this objective will not be easy to achieve.⁴⁴

14.41 The Governor-led opium poppy eradication initiative achieved a 154 per cent increase in eradication in 2012 compared to its 2011 level (9,672 hectares eradicated in 2012). Even so, the total area under opium poppy cultivation in Afghanistan was estimated at 154,000 hectares (125,000–189,000) in 2012, which represented an 18 per cent increase in cultivation. According to the UN Office on Drugs and Crime, in 2012 the potential opium production, however, was estimated at 3,700 tons (2,800–4,200 tons), a 36 per cent fall from the previous year. This decrease was due to reduced opium yield caused by a combination of a disease of the opium poppy and adverse weather conditions, particularly in the Eastern, Western and Southern regions of the country.⁴⁵

14.42 The vast majority of total cultivation, accounting for 95 per cent, took place in nine provinces in Afghanistan's Southern and Western regions, including the country's most insecure provinces where cultivation remained stable (72 per cent of opium cultivation was concentrated in Helmand, Kandahar, Uruzgan, Day Kundi and Zabul). The UN Office on Drugs noted this regional divide in opium production, whereby cultivation was mainly confined to provinces dominated by insurgency and organized criminal networks. In its view, this pattern of cultivation confirmed 'the link between insecurity and opium cultivation observed in the country since 2007'.⁴⁶

14.43 Clearly, the effects of opium cultivation on the economy, polity, and Afghan society are far reaching. Although opium production may produce some short-term economic benefits for the rural population, these gains are vastly outweighed by the detrimental effects on security, political stabilisation, and state building, which are central to sustainable and high quality growth.

14.44 Witnesses were similarly concerned about the adverse effects of poppy cultivation in Afghanistan; donors failure to acknowledge the problem; and their lack

43 The World Bank, *Afghanistan in Transition: Beyond 2014*, vol. 2: Main Report, May 2012, p. 26.

44 The World Bank, *Afghanistan in Transition: Beyond 2014*, vol. 2: Main Report, May 2012, p. 26.

45 United Nations Office on Drugs and Crime, *Afghanistan Opium Survey 2012*, Summary Findings. November 2012, p. 4.

46 United Nations Office on Drugs and Crime, *Afghanistan Opium Survey 2012*, Summary Findings. November 2012, pp. 5 and 27.

of effort to help curb production. The Australian Council for International Development referred to poppy production as 'a real threat and that viable measures to counter this trend should be identified'.⁴⁷ ActionAid stated that during the last decade the Government of Afghanistan and the international community have claimed their highest commitment to opium eradication. Yet it indicated that:

...the opium problem is causing agriculture backwardness and promoting poverty in Afghanistan and all intentions and claims for fighting it has had very little impact.⁴⁸

14.45 Professor Howes and Mr Pryke recommended that rather than avoid the issue of opium production, Australia's aid strategy should contain explicit analysis of the prevalence and trends in poppy production in Afghanistan.⁴⁹ It should also determine a position on whether one of the aims of Australia's aid is to reduce poppy production and, if so, what strategies would be used.⁵⁰

14.46 ACIAR does not conduct work on poppies but argued that, if it made a contribution towards the prosperity of farmers growing wheat and other crops and livestock, then it might reduce the propensity of those farmers to seek to cultivate poppies as a source of income. In other words, having an alternative to poppies could help—if farmers have choices, there is a better chance they will move away from that particular crop.⁵¹

Committee view

14.47 The heavy reliance by some areas of Afghanistan on opium production underscores the importance of development assistance encouraging farmers away from cultivating the opium poppy by providing them with a viable substitute. The committee has made a number of recommendations designed to provide farmers and local communities with the incentive to do so.

Mining

14.48 Afghanistan has abundant mineral resources (natural gas, petroleum, coal, copper, silver, gold).⁵² Since the 1970s, however, most have not been successfully

47 *Submission 3*, p. 2.

48 *Submission 11*, p. 10.

49 *Submission 14*, p. 11. They indicated that in some districts in Uruzgan 50–80 per cent of the population was involved in opium poppy cultivation.

50 *Submission 14*, p. 11.

51 *Committee Hansard*, 3 December 2012, p. 33.

52 See for example, Moore Stephens, *Afghanistan Extractive Industries Transparency Initiative (AEITI), Afghanistan Second EITI Reconciliation Report, 1389*, October 2012, p. 7; Mr Scott Dawson, AusAID, *Committee Hansard*, 3 December 2012, p. 9 and U.S. Department of the Interior and U.S. Geological Survey, *Preliminary Non-Fuel Mineral Resource Assessment of Afghanistan*, USGS Open-file Report 2007–1214, 2007, p. xxxi.

developed nor systematically explored using modern methods.⁵³ Afghanistan also poses particular risks for mining enterprises seeking to take advantage of mineral opportunities. The environment can be challenging and expensive, with many of the reserves located in remote, rugged mountains that lack infrastructure, power and a readily available trained workforce. Some of the areas are subject to extreme seasonal changes with harsh winters in higher altitudes. Security, tribal conflicts and local power struggles further complicate efforts to develop mineral properties.⁵⁴

14.49 The committee recognises the challenges confronting mineral companies seeking to extract Afghanistan's mineral reserves. Its main concern, however, is with the safeguards needed to ensure that mineral exploration and extraction does not cause harm to local communities, result in unnecessary environmental damage, fuel corruption or derail sustainable development.

Potential driver of development

14.50 The committee has referred to the critical need for Afghanistan to develop the potential to generate its own revenue in order to meet the looming fiscal shortfall. At the moment, mining in Afghanistan is substantially an untapped resource, which contributes only marginally to the country's GDP—less than 0.5 per cent during the 2000s.⁵⁵

14.51 Afghanistan has a very substantial fiscal gap that it will need to fill and, as mentioned previously, has limited existing sources for economic growth and employment. One of the great hopes for Afghanistan's future economy derives from the potential to exploit its mineral wealth. The World Bank has estimated that potentially there is around \$1 trillion worth of revenue and resource available for the country.⁵⁶ Even so, mining profits are not expected to come on line for another decade. According to AusAID, the careful management of its extractive industries will

53 See Stephen G. Peters, Trude V.V. King et al, *Summaries of Important Areas for Mineral Investment and Production Opportunities of Nonfuel Minerals in Afghanistan*, vol. 1, U.S. Department of the Interior and U.S. Geological Survey, Open-file Report 2011–1204, 2011, p. 1.

54 Moore Stephens, *Afghanistan Extractive Industries Transparency Initiative (AEITI), Afghanistan Second EITI Reconciliation Report, 1389*, October 2012, p.7 and Stephen G. Peters, Trude V.V. King et al, *Summaries of Important Areas for Mineral Investment and Production Opportunities of Nonfuel Minerals in Afghanistan*, vol. 1, U.S. Department of the Interior and U.S. Geological Survey, Open-file Report 2011–1204, 2011, p. 32.

55 The World Bank, *Afghanistan in Transition: Beyond 2014*, vol. 2: Main Report, May 2012, p. 26; Extractive Industries Transparency Initiative, 'Afghanistan publishes mining revenues and contracts', 19 October 2012. The article refers to the expected increase in revenues.

56 The World Bank, *Afghanistan in Transition: Beyond 2014*, vol. 2: Main Report, May 2012, p. 26 and *Committee Hansard*, 3 December 2012, pp. 9–10. See also United Nations Assistance Mission to Afghanistan, Featured News, 'Managing Afghanistan's mineral wealth', 2 August 2012, <http://unama.unmissions.org/Default.aspx?tabid=12254&ctl=Details&mid=15756&ItemID=35578&language=en-US> (accessed 6 February 2013).

provide the Government of Afghanistan with 'a very significant boost' to its finances and its 'capacity to finance delivery of basic services including health and education'.⁵⁷

Australia's contribution

14.52 Dr Bizhan noted that mining infrastructure is a sector where Australia has a comparative advantage and expertise.⁵⁸ In his view, Australia could not only provide technical assistance to Afghanistan in the area of mining but also encourage the Australian private sector to invest in that country.⁵⁹ Indeed, the Memorandum of Understanding between the Government of Afghanistan and the Government of Australia, identified mining as a sector where Australia has particular expertise, comparative advantage and can have the most impact.⁶⁰

14.53 A number of reports, however, raise concerns about the detrimental effects that mining could have—the resource curse—on a conflict-affected country such as Afghanistan.

Concerns about mining in Afghanistan

14.54 The term 'resource curse' refers to the situation where, despite the potential for prosperity, resource-abundant countries underperform: where exploitation of their resources in effect undermines their economy. The curse can be linked to inflation, disparity in the distribution of wealth, poor public services, corruption that counters economic development and destruction of the environment. For example, corrupt leaders and officials may misappropriate income from these resources and instead of supporting the country's growth and development, use it for personal enrichment. Such inequalities can fuel local grievances leading to conflict.⁶¹

14.55 Already rent by ethnic and tribal rivalries and troubled by corruption, Afghanistan would be vulnerable to this curse. Indeed, a recent independent review of the ARTF stated that China and India's significant mining investments and increasing interest in oil and gas exploration in Afghanistan makes the concern about the 'resource curse' more urgent than ever. According to the review, the resource curse may become 'a major challenge for all development partners'.⁶²

57 Mr Scott Dawson, AusAID, *Committee Hansard*, 3 December 2012, p. 9.

58 *Submission 13*, p. 2.

59 *Submission 13*, p. 7.

60 Memorandum of Understanding, 'Development Framework Agreement', between the Government of the Islamic Republic of Afghanistan and the Government of Australia, 2012–2017, p. 4, <http://www.aisaid.gov.au/countries/southasia/afghanistan/Documents/aus-afghanistan-development-framework-agreement-2012-17.pdf> (accessed 18 January 2013).

61 See also United Nations Assistance Mission to Afghanistan, Featured News, 'Managing Afghanistan's mineral wealth', 2 August 2012, <http://unama.unmissions.org/Default.aspx?tabid=12254&ctl=Details&mid=15756&ItemID=35578&language=en-US> (accessed 6 February 2013).

62 Scanteam, Analysts and Advisors, *ARTF at a Cross Roads: History and the Future*, Final Report, Oslo, September 2012, p. 2.

14.56 In this context, the UN Secretary-General referred to fears within Afghanistan that the windfall from mining 'could perpetuate civil conflict'. Drawing from recent world-wide history, he noted that since 1990 at least 18 violent conflicts had been fuelled by the exploitation of natural resources such as timber, minerals, oil and gas.⁶³ According to the Secretary-General:

Sometimes this is caused by environmental damage and the marginalization of local populations who fail to benefit economically from natural resource exploitation. More often it is caused by greed.⁶⁴

14.57 Some witnesses underscored their fears that mining development in Afghanistan could generate serious security, social and environmental problems and were wary of development assistance being used in this sector. For example, AID/WATCH drew on the history of mining in developing countries to show that 'economic growth from the mining sector rarely translates to improvements in income or basic services for the poor'.⁶⁵

14.58 A member of AID/WATCH's committee of management, Mr Gareth Bryant, referred to how mining activities could generate conditions favourable for the resource curse, exemplified by social inequality, political corruption and ecological damage. In his assessment, the problem with relying on mining was that it proceeds to the 'detriment of other more sustainable and more participatory forms of economic development'. Thus, all the money would flow into the mining industry thereby crowding out other sectors and rendering them unviable. He also noted that mining was not a large employer resulting in the bulk of society being excluded from the mainstream economy while the elite few participating in the mining industry become the main beneficiaries. He suggested that a sustainable way to develop Afghanistan's economy was to start from its existing strength especially developing agriculture in a way that gives people good alternatives to poppy seed production.⁶⁶ Also to his mind, in a divided country like Afghanistan mining could exacerbate the divisions. He explained that the problem was the structural basis of mining, which excludes people:

...the economic surplus from mining is a rent and is a windfall which excludes ordinary people. There is a dual economy and that money will flow to political and economic elites, fuelling corruption et cetera.⁶⁷

63 See also United Nations Assistance Mission to Afghanistan, Featured News, 'UN chief says discovery of vast mineral deposits in Afghanistan should be managed properly', <http://unama.unmissions.org/Default.aspx?tabid=12254&ctl=Details&mid=15756&ItemID=35927&language=en-US> (accessed 6 February 2013).

64 United Nations Assistance Mission to Afghanistan, Featured News, 'UN chief says discovery of vast mineral deposits in Afghanistan should be managed properly', <http://unama.unmissions.org/Default.aspx?tabid=12254&ctl=Details&mid=15756&ItemID=35927&language=en-US> (accessed 6 February 2013).

65 *Committee Hansard*, 4 December 2012, p. 43 and also *Submission 23*, p. [4].

66 *Committee Hansard*, 4 December 2012, pp. 44–45.

67 *Committee Hansard*, 4 December 2012, pp. 44–45.

14.59 According to Mr Bryant, the Government of Afghanistan had begun awarding mining rights to multinational corporations, with Australian mining companies publicly expressing an interest in investing in Afghanistan's resources. DFAT informed the committee that although there was general interest, it was unaware of specific Australian companies interested in mining in Afghanistan.⁶⁸

14.60 Mr Bryant noted that AusAID supported mining in Afghanistan by providing training programs and mapping geological resources. In his view, such activities blur 'the boundaries between making projects that would otherwise exist more sustainable and making Afghanistan's mining industry more profitable for private interests and private investors'.⁶⁹ He argued that there was 'little evidence that democratic support will be a precondition for mining projects supported by AusAID in Afghanistan'. He argued:

Instead, AusAID's plan risks becoming another form of boomerang aid to the Australian mining industry, justified in terms of our economic national interest while locking the people of Afghanistan into a problematic development path.⁷⁰

14.61 On behalf of AID/WATCH, he urged the Australian Government to:

- cease using aid to promote minerals extraction in Afghanistan in favour of participatory forms of community development;
- enact legislation to ensure that Australian mining companies operating overseas are held to the same social and environmental standards as they are in Australia; and
- participate in international efforts to promote self-determination at the local and national level in mining developments.⁷¹

14.62 Mr Loewenstein pointed out that there was virtually no post-conflict or current conflict country endowed with massive natural resources that, as a means of supporting its people, had managed mining well. To his mind, this was a major concern.⁷²

14.63 In response to concerns about mining development in Afghanistan, AusAID agreed that resource dependence in its narrow economic definition (measured by the share of primary exports in GDP) had the potential to foster political and economic instability, conflict and corruption in resource-rich developing countries. It argued, however, this situation could be avoided with appropriate management. It informed the committee that:

68 *Committee Hansard*, 22 March 2013, p. 28.

69 *Committee Hansard*, 4 December 2012, p. 44.

70 *Committee Hansard*, 4 December 2012, p. 44.

71 *Committee Hansard*, 4 December 2012, p. 44.

72 *Committee Hansard*, 4 December 2012, p. 33.

The empirical evidence conveys a mixed picture. Some countries have been able to avoid the risks associated with resource extraction and benefit from the opportunities to improve the living standards of their citizens.⁷³

14.64 According to AusAID, notable examples include Timor Leste and Chile.⁷⁴

14.65 AusAID noted the importance of unlocking Afghanistan's considerable resource holdings in a way that was transparently and inclusively managed. According to Mr Lehmann, the Afghan Government was seeking to learn about mining, an area where Australia could make a difference. Indeed, the Afghan Government and its relevant ministries look for guidance from countries, such as Australia, which have particular expertise in tackling issues across the spectrum of mining activity.⁷⁵ He told the committee:

While we do not pretend to be the biggest thing in mining for Afghanistan, particularly from the point of view of the aid program, there are certain niche areas where we really do think we can provide targeted assistance and support to the ministry, to other parts of government and to the ministry of finance to ensure that those transparency mechanisms are up and running when these projects come on stream.⁷⁶

14.66 AusAID is interested in providing assistance to the governance of Afghanistan's extractive industries from the perspective of building the capacity of its oversight institutions to improve mineral sector governance, including transparency and accountability.⁷⁷ Its focus is on how Australia can improve Afghanistan's compliance with the Extractive Industries Transparency Initiative (EITI)—a significant international initiative to improve transparency in relation to revenues from the minerals sector. The initiative sets out a series of best international practice arrangements for the management of mineral revenues.⁷⁸

14.67 Afghanistan is currently a candidate country for full membership, and is seeking to become a fully-compliant country.⁷⁹ The deadline for the Afghan government to implement the EITI standards and undergo the relevant validation in order to become an 'EITI Compliant' country was 9 August 2012.⁸⁰ AusAID informed the committee that the Afghan Government submitted a request for an extension to the

73 Answer to written question on notice no. 32.

74 Answer to written question on notice no. 32.

75 *Committee Hansard*, 3 December 2012, pp. 9–10.

76 *Committee Hansard*, 3 December 2012, p. 10.

77 *Committee Hansard*, 3 December 2012, p. 9.

78 *Committee Hansard*, 3 December 2012, p. 9.

79 *Committee Hansard*, 3 December 2012, p. 9. See also <http://eiti.org/countries> (accessed 25 February 2013).

80 See Moore Stephens, *Afghanistan Extractive Industries Transparency Initiative (AEITI), Afghanistan Second EITI Reconciliation Report*, 1389, October 2012, p. 7; <http://eiti.org/files/Afghanistan-2010-2011-EITI-Report.pdf> (accessed 10 March 2013); Mr Scott Dawson, AusAID, *Committee Hansard*, 3 December 2012, p. 4.

validation deadline which was granted and the EITI Board was now reviewing Afghanistan's final validation report.⁸¹

14.68 It should be noted that, although AusAID promotes EITI abroad through its aid program, Australia is yet to sign up to implement EITI domestically. It has, however, launched an EITI pilot and agreed to host the biennial EITI Global Conference in May 2013.⁸²

14.69 When Australia announced its decision to pilot the EITI, the EITI Chair, Claire Short, stated that Australians were 'now taking further steps to practice what they preach'.⁸³ The committee recognises the need for transparency in the exploitation of Afghanistan's extractive industries and of the importance of Australia strengthening its advocacy for Afghanistan to become EITI compliant.

14.70 The type of assistance that AusAID is considering to help Afghanistan improve its governance of the minerals sector involves education and training. Under the Mining for Development Initiative, AusAID intends, from 2012, to provide 36 Australian Development Scholarships annually to public servants from key Afghan government ministries including six to the Ministry of Mines. The aim is to assist the Afghan Government to improve its capabilities and to achieve development objectives.⁸⁴ Other programs in support of Afghanistan's mining sector are likely to focus on:

- providing support for the reform of legislation and regulation relevant to the modernisation of the mining sector;⁸⁵ and
- supporting the government, particularly the Ministry of Mines, to establish their own capacity to handle the investment pipeline from concept and exploration to extraction and then the flow of revenues to ensure there is maximum benefit from extractive industries to the Government of Afghanistan and therefore to its budget and ability to deliver services.⁸⁶

Proposed legislation

14.71 Since the Tokyo conference on Afghanistan, there has been quite a considerable amount of activity connected to the passing of a minerals law through the Afghan parliament. According to AusAID, the ministry and Afghan Government, with the support and urging of donors, were taking legislation and regulation with a focus

81 Answer to written question on notice no. 14 submitted after 22 March 2013 hearing.

82 EITI, 'Australia to pilot the EITI', 27 October 2011, <http://eiti.org/news-events/australia-pilot-eiti> (accessed 1 May 2013).

83 EITI, 'Australia to pilot the EITI', 27 October 2011, <http://eiti.org/news-events/australia-pilot-eiti> and EITI conference 2013 in Sydney, <http://eiti.org/news-events/australia-host-eiti-conference-2013> (accessed 1 May 2013).

84 AusAID, *Overview of Australian assistance for sustainable mining across the world*, <http://www.ausaid.gov.au/aidissues/Documents/mining-for-development-part2.pdf>.

85 *Committee Hansard*, 3 December 2012, p. 9.

86 *Committee Hansard*, 3 December 2012, p. 9.

on transparency and accountability very seriously. Mr Lehmann indicated that although the regulatory framework was a work in progress, one advantage of having a nascent industry in Afghanistan was the opportunity to put in place structural legislative and regulatory mechanisms that would 'vouchsafe the revenue stream for the future'.⁸⁷

14.72 According to the October 2012 Afghanistan Economic Update, however, uncertainty about a new mineral law, was clouding progress in the mining sector. It stated:

While investor interest in the sector is encouraging, gaps in the legal and regulatory framework of the sector do not provide sufficient confidence to investors to start operations or make firm commitments.

14.73 The update noted that a new law was in preparation but had been heavily debated.⁸⁸ According to AusAID, as of April 2013, the new draft Minerals Law was still being debated within the Afghan Government.⁸⁹

14.74 In light of the serious concerns expressed by the UN Secretary-General and the independent review of the ARTF as well as the sorry history of the resource curse in conflict-affected countries, the committee believes that much greater effort is required to help Afghanistan ensure that it is not afflicted by this curse.

Recommendation 17

14.75 The committee recommends that AusAID continue to encourage and offer advice and technical assistance to help Afghanistan become and remain a fully-compliant member of the Extractive Industries Transparency Initiative.

Recommendation 18

14.76 The committee recommends that AusAID continue to encourage and offer advice and technical assistance to the relevant line ministry in Afghanistan to develop a robust legal and regulatory regime for extractive industries in Afghanistan.

Recommendation 19

14.77 The committee recommends that the Australian Government should, through the Afghan Government, make itself available to support local community involvement in all aspects of a proposed mining activity in their locality, including matters such as planning and oversight, particularly when it comes to the environment, local employment and investment of some of the mining revenue in local industries.

87 *Committee Hansard*, 3 December 2012, p. 10.

88 The World Bank, *Afghanistan Economic Update*, October 2012, pp. 1 and 13.

89 Answer to written question on notice no. 15 following hearing on 22 March 2013.

Recommendation 20

14.78 The committee recommends that AusAID monitor its Australia Development Scholarship Program to ensure that its administration is sound; that the selection process is open and transparent; that there is a close correlation between the courses undertaken and the development needs of Afghanistan; and that the students return to Afghanistan to take up positions in that country.