



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 11-Jul-2016 | Report No: PIDISDSC17260



BASIC INFORMATION

A. Basic Project Data

Country Afghanistan	Project ID P159402	Parent Project ID (if any)	Project Name Afghanistan:Extractives for Development Project (P159402)
Region SOUTH ASIA	Estimated Appraisal Date Nov 12, 2016	Estimated Board Date Apr 20, 2017	Practice Area (Lead) Energy & Extractives
Lending Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Mines and Petroleum	

Financing (in USD Million)

Financing Source	Amount
IDA Grant	55.00
Total Project Cost	55.00

Environmental Assessment Category
B-Partial Assessment

Concept Review Decision
Track II-The review did authorize the preparation to continue

Other Decision (as needed)

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B. Introduction and Context

Country Context

1. Afghanistan’s development in the modern era has suffered from frequent periods of political upheaval, accompanied by recurring conflict. The withdrawal of the international forces in 2014 has created a major gap in the Afghan economy. The aid and activity associated with their involvement supported a period of economic expansion with annual growth averaging 9.4 percent between 2003 and 2014. However, with the drawdown of international security forces and associated reductions in aid flows since 2012, economic growth has slowed dramatically to 1.3 percent in 2014 and an estimated 1.5 percent in 2015. A disruptive and prolonged political transition following the disputed outcome of the 2014 election further aggravated the situation as internal divisions within the National Unity Government slowed reforms and delayed the appointment of key officials. Country’s development was further undermined by a record level of conflict related casualties, with over 3,500 civilian deaths and 7,500 injuries in 2015.
2. Corruption is pervasive, fueled in large part by the illicit narcotics trade and the enormous ‘off-budget’ aid inflows



over the past decade, which have strengthened patronage networks, funded armed groups, and exacerbated grievances. The magnitude and pervasiveness of corruption in Afghanistan in recent years have been striking. This is reflected in domestic surveys, international indicators, such as the Transparency International corruption perceptions index, in which Afghanistan ranks as the third most corrupt country in the world in its 2015 survey, and reports by the U.S. Special Inspector-General for Afghanistan Reconstruction, and some egregious individual cases, such as the Kabul Bank crisis in 2010. Moreover, the benefits from corruption and patronage appear to have been narrowly concentrated, exacerbating grievances among those who perceive they are not benefiting from the enormous funds spent on Afghanistan since 2002.

3. Economic growth averaged an impressive 9.4 percent per year between 2003 and 2012 but fell sharply between 2013 and 2015. Growth was driven by investments in reconstruction, expansion of services supported by aid, and periodic surges in agricultural production. Per capita GDP was estimated at \$680 in 2014, three times the level in 2003. Figure 2 illustrates trends in GDP growth and sector contributions. These levels of growth were not sustainable; total security and development assistance declined to 59 percent of GDP in 2013 and will likely decline further to about 39 percent by 2020; GDP growth fell to 3.7 percent in 2013, 1.3 percent in 2014, and 0.8 percent in 2015. Growth rates are expected gradually to increase to about 3.8 percent by 2020. With population growth rates of near 3 percent, the most recent economic growth rates and near-term projections are well below the levels needed to create jobs for the large numbers of people entering the labor force and to reduce poverty.
4. Given the expected levelling off of international aid over the longer-term, new sources of growth will be needed to support government revenues and generate foreign exchange. The ongoing World Bank ‘Navigating Risks and Uncertainty’ analysis suggests that agriculture has large potential to drive growth through productivity improvements and increased land under cultivation, including through the expansion of irrigation schemes. Mining continues to represent Afghanistan’s most important potential source of exports and revenues. Limited progress has so far been achieved in mobilizing mining investment, due to the government’s desire to strengthen regulatory capacity and institutions before allowing largescale mining development. Afghanistan also has potential to leverage its geographical location to generate revenues, growth and employment through energy and ICT connectivity.

Access to Energy

5. **Energy Access.** The percentage of the population with access to energy in Afghanistan is among the lowest in the world. The Ministry of Energy and Water (MoEW) estimates that about 30% of Afghans have access to electricity from grid-based power, micro-hydro, or solar panel stations. Afghanistan’s per capita electricity consumption averages 497 kWh per person per year, significantly lower than the South Asian average of 667 kWh per person and the average electricity usage of 3,100 kWh per person worldwide (based on 2012 data). Thermal industries including the manufacture of primary building materials, and home heating and cooking remain heavily reliant on coal. The situation has improved notably in the major urban population centers along the critical North-East corridor between Mazar-e-Sharif and Kabul, following the import of power from Uzbekistan and the rehabilitation of three hydro-plants (Mahipar and Sarobi completed, and Naghlu ongoing). Expanding sections of some urban centers, for example Kabul, Herat, Mazar-e-Sharif, and Pul-e-Khumri, now have 24-hour power supply for the first time in decades.
6. **Energy supply.** In spite of recent improvements, Afghanistan continues to be beset by chronic limitations in energy access and energy security. The nation relies heavily on imported energy, with a predominance of liquid fuels used for off-grid electrification, coal across many end-uses, and electricity imports complemented by domestic hydropower for electrification. Severe limitations to energy access represent a persistent drag on many potential sources of growth. Afghanistan has limited indigenous sources of electricity, with only approximately 522 MW of installed capacity, compared to more than 1,000MW of imported electricity. The installed capacity is a mix of hydro



(49 percent), thermal (39 percent), and diesel (12 percent). Hydropower provides 95 percent of domestically generated electricity as it is the lowest cost alternative (with construction costs sunk) and not subject to fuel availability issues. In mid-2015 12 hydropower plants in Afghanistan provided on-grid electricity, the largest two being the 94 MW Naghlu Hydropower Plant and the 66 MW Mahipar Hydropower Plant. Over 5,000 micro hydropower plants constructed under the National Solidarity Program provide off-grid electricity in rural areas.

7. **Energy security.** Afghanistan needs improved access to secure, affordable, reliable and sustainable energy for: (a) power and heat generation; (b) development of an effective electricity transmission and distribution grid; (c) improved energy efficiency across end-uses; (d) more environmentally sustainable household energy including clean cooking fuels; (e) domestic revenue mobilization through oil and gas development; and (f) development of downstream markets that can stimulate jobs and economic gains. To date, access to reliable low cost energy for commercial and residential uses remains limited by an almost exclusive reliance on imports from its northern and western neighbors, at average costs of less than US 60 MW/h. As noted above, coal continues to meet many energy gaps while generating significant environmental, occupational health & safety, and social impacts. The electricity sector is also underperforming, with load-shedding and outages even in the urban areas still common for many homes and businesses, forcing them to rely on private generators. For much of the nation, high-cost environmentally socially and economically sub-optimal solutions are the only means to obtain access to energy.

8. **Unmet energy demand.** Unmet energy demand continues to grow. Current electricity consumption is sustained only by the rapid growth of imports from the Central Asian States, but overall supply has not kept pace and remains significantly below actual demand. In the last decade only one new generation project has been built: a 105MW diesel project in Kabul that has been little used for reasons of high cost and diesel fuel shortages. The 2013 Power Sector Master Plan prepared by the Ministry of Energy and Water presented a 20-year electricity demand forecast requiring a base case peak load of 3,502 MW and gross demand of 18,409 GWh by 2032. Meeting this demand will require increasing domestic energy generation by means of thermal, hydro and renewable plants, together with greater imports.

9. **Available hydrocarbon energy sources.** In stark contrast to the current energy access & security gap and the resulting drag on development, the USGS and the Ministry of Mines and Petroleum (MoMP) have assessed the undiscovered conventional, technically recoverable natural gas resources of northern Afghanistan at a substantial 15.7 trillion cubic feet (TCF)¹, placing the country somewhere between Mexico and Pakistan in terms of reserve volumes. However, proven / available reserves are limited with existing producing wells nearly depleted and an urgent need for new exploration / reserve development and for investment in field facilities and mid-stream infrastructure. It is expected that natural gas will be an increasing component of the fuel mix going forward to balance a high-growth across an array of end-use energy demands. Natural gas, which has half the carbon footprint of coal, is a lower-cost means of providing flexible energy solutions, including electricity supply, while it also contributes to address the nation's crippling environmental / social and occupational health & safety issues resulting from weakly regulated coal mining.

Sectoral and Institutional Context

10. **Afghanistan has a large, diverse resource endowment.** Mineral deposits including oil, natural gas, copper, coal, marble, construction materials, iron ore, gold, lithium and other industrial minerals provide the nation with a

¹ USGS, "Assessment of Undiscovered Petroleum Resources of Northern Afghanistan", 2006



diversity of development opportunities. The sector represents a potential source of economic growth and expansion, and one reliant less on public sector investment given the role of the private sector to pool domestic and international capital. Leveraging these resources meets an equally diverse array of broader objectives around the construction of linkages to other sectors, ensuring revenues and foreign exchange earnings to the government, building infrastructure, and contributing to the creation of jobs and livelihoods.

Mining Development

11. The World Bank has provided support to the Government of Afghanistan in the extractive industries since the mid-2000s. The Bank provided guidance, advisory services and a \$50 million grant for the implementation of the SDNRP, approved in 2006, which aimed at promoting sustainable development of the minerals sector. In May 2011, a new operation was approved, SDNRP2, in the amount of US \$52 million, to assist the MoMP and the National Environmental Protection Agency (NEPA) in further improving their capacity to effectively regulate Afghanistan's mineral resource development in a transparent and efficient manner and foster private sector development.
12. Since 2006 SDNRP has provided technical assistance to the government to (a) strengthen the award of mining contracts & licenses, (b) collect geological data to inform resource development options, and (c) strengthen regulatory compliance monitoring and reporting. Additionally, since 2008 the Bank has directly supported and supervised the Extractives Industry Transparency Initiative (EITI), and since 2102 has leveraged in-bound investments for more sustainable growth and diversification through the Resource Corridor Initiative. The achievements under SDNRP2 include the following:
 - Transaction support for the tender and negotiations of the main Hajigak contract, including the establishment of an International Advisory Panel (IAP) to ensure the transparency of the negotiations process;
 - The establishment of an independent external inspection and contract compliance monitoring system;
 - The preparation of a Strategic Environmental and Social Assessment (SESA) for the sector, which included deep consultation with a wide range of stakeholders and a set of comprehensive recommendations;
 - Capacity Building to NEPA on the implementation of the recommendation from the SESA;
 - Implementation of the Extractive Industries Transparency Initiative (EITI), including the establishment of a multi-stakeholder group and the preparation of four EITI reports, to improve revenue transparency;
 - The preparation of two corporatization studies for Northern Coal Enterprise (NCE) and Afghan Gas Enterprise (AGE);
 - The excavation of nearly 85 percent of the archeological red zone at Mes Aynak, with support from international archeologists, national archeologists, and some 250-500 laborers residing in the surrounding communities.
13. Resource development requires commitment to a long term strategy. Achievements have been made on building capacity at the MoMP in regulatory processes associated with small and large scale mining and the informal artisanal mining sector (ASM). As SDNRP2 prepares to close (closing date: March 30, 2017), the MoMP is in the early stages of implementation of (a) contractual monitoring and renegotiation of large scale contracts, (b) regulatory enforcement of small and medium scale mining and (c) formalization of the informal ASM sector. Given emerging issues with implementation of the above, it was decided to include ongoing TA to the mining sector within AE4D (artisanal, small scale and large scale).
14. The SDNRP2 has achieved significant gains on the mining side and now focus should shift to improved energy access through development on the country's significant natural gas potential.

Hydrocarbon Development



15. The development of Afghanistan's hydrocarbon and mineral resources has been identified as a critical link for securing long-term energy security, economic growth and stability for the country. The development of indigenous gas resources offers immediate opportunities for increased energy access and security, especially in reinforcing the deployment of variable, intermittent renewable energy. Moreover, hydrocarbons meet a longer term goal to increase Afghanistan's integration into regional (Central/South Asia) development initiatives, including projects such as the TAPI (Tajikistan, Afghanistan, Pakistan, India) Pipeline. Since 2002 the Ministry of Mines & Petroleum has been strengthening the enabling environment for commercial sector investments, targeting further exploration and exploitation of previous producing fields. Internationally competitive hydrocarbon bid rounds have confirmed investor interest, but unaddressed impediments to investment across the full gas value-chain remain. After a decade of efforts, Afghanistan has yet to demonstrate a fully integrated "proof of concept" investment developing and delivering gas to credit worthy customers (Operationalizing Gas Development Opportunities). The government and IFI's can contribute to realizing a "proof of concept" investment.
16. **Mazar IPP.** It is expected that the development of Afghanistan's hydrocarbons potential will be initially anchored in the expansion of domestic uses of natural gas and, fundamentally, in the expansion of gas-based electric generation capacity as part of current efforts to increase availability of power and energy self-reliance. Two gas-to-power projects have been proposed: (a) USAID's 200 MW gas-to-power in Sheberghan, and (b) a 50 MW gas-based plant in Mazar-e-Sharif ("the Mazar IPP"). The implementation of both projects is dependent on confirmed, sustainable access to sufficient quantities of gas from currently productive fields, and may therefore need to be initially resized to principally reinforce the parallel deployment of intermittent / variable renewable energy (e.g. solar) in their early project lives. Moreover, just as much as the eventual development of larger gas-to-power generation projects, they will require the phased introduction of an adequate policy, legal, institutional and contractual framework to establish an enabling environment for future investment
17. From that perspective, the Mazar IPP constitutes a concrete proof of concept project for the operationalization of gas development while also serving as an effective on-the job capacity building opportunity the expansion of gas-based power generation capable of displacing both electricity imports and coal based power plants. Across a longer time horizon, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline project is expected to further catalyze the use and monetization opportunities for Afghan gas, operationalizing gas development opportunities.
18. Public parties involved in the discussions on the Mazar IPP have so far included the Ministry of Finance (MoF), MoEW, the MoMP, Da Afghanistan Breshan Sherkat (DABS, the state owned power utility), and Afghan Gas Enterprise (AGE, the state owned gas utility). Commercial parties involved include the International Finance Corporation (IFC) and the Ghazanfar Group (GG), a private Afghan conglomerate. A Memorandum of Understanding (MoU) was signed between the parties in connection with the Mazar IPP Project on May 13, 2015. In addition, a World Bank IDA Guarantee (P157827) is currently being processed as a credit enhancement tool to support the development of the IPP. The IDA Guarantee would backstop certain GoA payment obligations deriving from the Implementation Agreement (IA) derived from DABS payment obligations under the PPA, namely capacity and energy payments, as well as termination costs.
19. **Requirements for Operationalizing Gas Development Opportunities.** Exploration & development of new gas reserves are expected to require five+ years; the proposed IPP's will therefore need to be initially sized according to existing gas availability, with the option to add capacity as production capacity is expanded. Moreover, the Sheberghan IPP and Mazar IPP will require (a) a comprehensive policy, legal and regulatory framework, starting with the revision/supplementation of the 2009 Hydrocarbons Law, and (b) effective regulatory, monitoring and oversight capacity by the Afghan Petroleum Authority (currently a part of the MoMP). Moreover, while the Sheberghan IPP concepts proposes a captive power plant located on the producing field, the Mazar IPP is reliant on a 89 km pipeline ("Sheberghan to Mazar gas pipeline", discussed below) to an industrial park in Mazar e Sharif currently hosting currently a gas-based power generation plant (12 MW), the state-owned "Kud Barq" Northern



Fertilizer Plant, and a recently established glass manufacturing facility. Like the proposed IPP projects, the TAPI pipeline will demand strong policy, legal and regulatory capacities; the roles & responsibilities of AGE regarding operation and maintenance of the TAPI gas pipeline infrastructure through Afghanistan have yet to be agreed.

Available Resources and Reserves

20. Afghanistan's hydrocarbon potential extends well beyond the limited exploratory and development work that has been carried out on the Amu Darya prospects. The country presents five major and one minor sedimentary basins, all of which are substantially underexplored. More in depth petroleum exploration and development activities have so far been confined to northern Afghanistan within the Amu Darya and Afghan-Tajik basins. Limited exploration in the Tirpul basin (Herat Province) confirmed the presence of petroleum resources while the Katawaz and Helmand basins have no reported shows, likely owing to negligible or no exploratory work. The Kushka Basin, also still largely unexplored, constitutes an extension of the highly prolific Amu Darya, home to giant and super giant fields in Turkmenistan and Uzbekistan, including Turkmenistan's Galkynysh field, one of the largest in the world. The absence of sufficiently comprehensive geological and geophysical data has contributed to hampering the GoA's efforts to attract foreign capital for exploration and development.
21. More recently, in 2006 the U.S. Geological Survey significantly increased previous estimates of Afghanistan's petroleum resource base; highlighting the absence of adequate exploration efforts and the availability of new data, this was done through a reinterpretation of old data. The USGS and the MoMP assessed the undiscovered conventional, technically recoverable petroleum resources of northern Afghanistan, resulting in an estimated mean of 1,596 million barrels of crude oil (mostly in the Afghan-Tajik Basin), 15,687 billion cubic feet of natural gas (mostly in the Amu Darya Basin), and 562 million barrels of natural gas liquids.

Production Activities

22. Afghan Gas Enterprise is currently producing approximately 450,000 cubic meters of natural gas per day. The majority of this natural gas is still transported through a 90 kilometer pipeline (commissioned in 1974) connecting the Khoja Gogerdaq natural gas field near Sheberghan, Jowzjan province, to the Northern Fertilizer and Power Plant in Mazar-e-Sharif, Balkh province. The remaining natural gas is distributed through a network of small diameter pipelines to domestic customers in Sheberghan, Khoja Dokho, Aqcha and other villages in Jowzjan. Natural gas supply is currently hampered by years of lack of technical, geological and management capacity at AGE, including gas field management and reservoir depletion, lack of equipment, spare parts and materials to maintain operations and inadequate resources for operation and maintenance of the existing production wells, gas processing plants, and pipeline infrastructure.
23. **Natural gas gathering/processing.** While natural gas production facilities in the three fields in operation have recently undergone rehabilitation work with support from the Asian Development Bank (ADB) and are assessed to be in serviceable condition, the gas gathering, separation and processing systems installed during their initial period of development have not been systematically maintained. As a result, capacity to move commercial quantities of gas safely and efficiently to market is effectively limited. In addition, although much of the natural gas in Jawzjan Province contains high sulfur dioxide and other contaminants that must be removed to obtain pipeline-quality, marketable gas, processing facilities are by now either technically obsolete (the Khoja Gogerdaq's field gas conditioning plant was commissioned in 1967), show evidence of cumulative degradation and have been mothballed or abandoned and should be officially decommissioned.²

² "Assessment Of The Status of Afghan Gas Operations Report", UNICON Ltd. UK, Sustainable Development of Natural Resources



24. **Natural Gas Transport.** Between 2011 and 2014, the US Department of Defense’s Task Force for Business and Stability Operations (TFBSO) provided materials and technical assistance to rehabilitate the 45-year-old, 89.1-kilometer Sheberghan-Mazar pipeline. TFBSO procured and delivered 15 kilometers of pipe for the Afghan Gas Enterprise to replace corroded sections of the existing pipeline. By the time TFBSO ceased field operations in Sheberghan in November, 2014, AGE had connected 12 of the 15 kilometers of replacement pipe. In July 2015 USAID reported that AGE had not yet managed to complete the remaining three kilometers of planned repairs due to security concerns; its report also concluded that TFBSO had only tested the 15 kilometers of the pipeline targeted for repair and had not performed pressure testing on the remaining 75 kilometers. The overall condition of the partially rehabilitated pipeline remains unknown should it be run under higher pressure conditions.

Sector governance

25. **Legal framework.** At present, hydrocarbon sector activities in Afghanistan are subject to the provisions contained in the 2009 Hydrocarbons Law and its associated regulations. The Hydrocarbons Law focuses primarily on the upstream segment of the natural gas value chain, addressing licensing forms and procedures for exploration and production of gas reserves and transport of gas through pipelines within blocks. It, however, lacks any provisions covering the gathering, compression, treatment, processing, transport, distribution and marketing of natural gas. In addition, no legal framework regulating the domestic price of natural gas has been produced to date.

26. **Institutional framework.** Current monitoring of oil and natural gas investments and operations in Afghanistan is dispersed. Core project monitoring is carried out by the MoMP, where capacity strengthening is critically needed. Increasingly, regulatory and monitoring responsibilities relevant to oil and natural gas projects have dispersed beyond the oversight of MoMP to include: Afghan Petroleum Authority (APA) (oversight of oil and natural gas investments within the MoMP), Afghan Gas Enterprise (effectively, Afghanistan’s NOC), Ministry of Finance (contract finance, taxes, and royalties), NEPA (environmental and social oversight), Interior (security), Public Works (associated infrastructure), Energy and Water (electricity), and Agriculture (land management/use). This calls for improved definition of institutional roles and responsibilities within the sector and for improved coordination. Furthermore, essential monitoring capacity of environmental and social impacts and security is required.

27. During the last decade, MoMP has undergone a gradual restructuring process that has included the divesting of most production-gear activities to AGE, while retaining the role of a policy-making, regulatory government agency. This restructuring reflected broader government reforms in line with Afghan economy restructuring efforts and has positively framed the investment environment for oil and natural gas:

- Amu Darya Petroleum Authority (ADPA). In response to increased investor interest in the Amu Darya basin, the MoMP established a dedicated department to assist in the management and oversight of investment in that area. The department was expanded to the Afghan-Tajik contracts in 2013 and was later renamed the Afghanistan Petroleum Authority.
- Afghanistan Petroleum Authority (APA). Housed in the MoMP the APA is the regulatory body responsible for the oversight of oil and natural gas investments.
- Afghan State Gas Enterprise (AGE). The state owned enterprise (SOE), based in Sheberghan, historically implemented all regulatory and technical aspects of natural gas development in northern Afghanistan. With World Bank support an assessment was undertaken to corporatize AGE’s operations. MoMP’s plan is to



divest the non-viable sections of AGE and transfer its viable assets and staff to a new Afghanistan Petroleum Corporation (APC) based in Kabul.

28. In 2014/15, support from the Sustainable Development of Natural Resources Project 2 (SDNRP2, P118925), an assessment was undertaken to corporatize AGE's operations. On the basis of that assessment, MoMP plans to divest the non-viable activities of AGE and transfer its viable assets and staff to a new Afghanistan Petroleum Corporation (APC) based in Kabul. In addition, the report highlighted several persistent deficiencies in the enterprise's organization, operating and human resource structure.
29. Much of the donor support over the last 10+ years from the US Government (TFBSO, USAID, and USGS), ADB and NORAD led to the proposed changes to the MoMP's institutional framework whose implementation began in 2011. In addition, ADB provided substantial support for well rehabilitation efforts and for the development of a Natural Gas Master Plan, which focuses on the enumeration of upstream issues and long term sector development planning, with less attention assigned to actual implementation of reforms. A coherent and comprehensive governance framework that incorporates the legal, regulatory and policy-making mandates for all stakeholders remains essential for gas sector development and for the attraction of private investment.

Capacity gaps in the hydrocarbons sector

30. The overall assessments of the sector's institutional structure and capacity cited above substantially coincide with the findings of the Emergency Project Paper on the Capacity Building for Results Facility (CBR, P123845, currently active) approved by the Bank in December of 2011. Despite sustained donor support to building capacity within the institutions charged with managing the EI sector, human resource capacity remains weak and in some cases entire directorates have disappeared as a result of evolving donor priorities.
31. Given the proposed IPP gas-to-power projects, building capacity within the MoMP, APA, AGE and other sector-related agencies will need to run in parallel, aligning public and private sector objectives and addressing deficiencies across the gas value-chain. The Afghan Petroleum Authority lacks permanent staff and the institutional knowhow to draft, negotiate and enforce contracts; it requires adequate support and technology to develop and manage a sector database and to process and maintain project documentation. The Afghan Gas Enterprise, critical at present in operating and maintaining the existing gas infrastructure and for installing, commissioning and operating much needed new capacity, is in need of modernization to improve operational efficiency. AGE also lacks the capital necessary to fully fund its operations.

Transparency, Accountability and Citizen Engagement

32. There is an increasing body of evidence demonstrating that improved governance and anti-corruption measures are strongly linked to development gains, and that these gains may be larger in magnitude for resource rich countries³. Moreover, issues of transparency, accountability and active citizen engagement gain particular importance in fragile, conflict and violence (FCV) resource-rich environments, such as Afghanistan. Like all nations, Afghanistan would

³ Kaufman, D (2015) Evidence-based Reflections on Natural Resource Governance and Corruption in Africa, accessed at: http://www.resourcegovernance.org/sites/default/files/DKaufmann_YaleAfricaDevelopmentChapter.pdf



benefit from an increasing awareness, transparency and engagement regarding potential resource development impacts and sharing of benefits.

33. The World Bank's support of the Extractive Industries Transparency Initiative (EITI), of sector dialogue on contract disclosure, of activities around citizen engagement and community consultations and the establishment of a non-discretionary mining cadaster, all point to the foundational importance of transparency and citizen engagement. The multi-stakeholder nature of the EITI has also provided a valuable forum for dialogue among the industry, civil society and industry stakeholders. On this basis, the proposed project seeks to continue the World Bank's ongoing support to the EITI, which would provide an internationally recognized and credible transparency and oversight mechanism for the future development of Afghanistan's oil and gas resources.

Relationship to CPF

34. The WBG's activities in the energy sector are guided by the Energy Sector Directions Paper (ESDP, 2013), which defines support across an array of energy system issues: (a) power and heat generation; (b) power, heat, and natural gas transmission and distribution; (c) energy efficiency in the energy sector and end-use energy efficiency; (d) household energy; (e) oil, gas, and coal development and production; and (f) the downstream petroleum sector⁴. As clearly outlined in the ESDP (§ 31 & 32), the diversity of energy challenges around the world calls for an approach tailored to individual country and regional circumstances.

35. The World Bank Group has worked with individual countries to develop their gas resources in accordance with the guidance of the Management Response to the Extractive Industries ("EIR", 2004)⁵. For many developing countries these resources represent an important tool in supporting economic growth towards meeting the MFGs (SDGs)⁶. These resources can be a source of employment, raw materials and energy, revenues, infrastructure and demand for local services and goods. The WBG has supported the EIR's recommendation to increase financing for the development of natural gas as a major part of the IBRD/IDA's broader Infrastructure Action Plan, including increased financing for private gas projects whenever possible.

36. In the 2013 Energy Sector Development Paper, the WBG has recognized that resource opportunities for countries to balance a high-growth in energy demand while achieving sustainable low carbon growth vary greatly. Greater deployment of large-scale renewable energy remains limited by storage capacity and often requires reinforcing lower-carbon baseload energy, which may include natural gas as a transition fuel. In these circumstances natural gas has consistently proven to be the least-cost means of providing flexible, low-carbon electricity supply.

37. The proposed project is in line with the World Bank Group's new Country Partnership Framework for FY17-20. The World Bank Group Strategy is organized under three pillars: (i) building strong and accountable institutions; (ii) supporting inclusive growth; and (iii) expanding and deepening social inclusion. The pillar on inclusive growth indicates that "support for extractive industries aims to improve governance and increase revenues, and to provide a base for more diversified growth in the longer term along key resource corridors". In particular, under Objective 2.5:

⁴ Toward a Sustainable Energy Future for All: Directions for the World Bank Group's Energy Sector, World Bank Publication #79597, 2013.

⁵ Achievements under WB engagement in Extractive Industries are reported annually.

⁶ Striking a Better Balance-- The World Bank Group and Extractive Industries: The Final Report of the Extractive Industries Review, World Bank Group Management Response, September 17, 2004



Improved regulatory environment for extractive industries, the CPF acknowledges that although Afghanistan is endowed with a wide range of minerals and hydrocarbons, the sector currently makes a limited contribution to growth, revenue generation, or employment despite past support. Governance challenges remain, and the recent commodity price slump has dampened private sector investment. There is a need over a medium-term framework to improve the policy and regulatory capacity and provide 'proof of concept' investments that would test the governance and regulatory regime for mining and gas, and from which successful operations would then be incrementally grown. The framework commits the World Bank Group to supporting creation of an enabling environment by supporting improvement in policies, regulatory capacity, and infrastructure for transparent and sustainable development of the extractive sector as a future driver of broader development and growth

38. In line with the Bank's commitments to climate change mitigation and as a part of the preparation of this project, an evaluation will be undertaken to calculate potential carbon emissions that may result from project activities.

C. Proposed Development Objective(s)

To assist the GoIRA to implement extractives sector reforms and operationalize mining and gas sector development opportunities

Key Results (From PCN)

39. Key outcome indicators to be used to measure progress on the project objective over its life-time will be:

- Further modernizing the legal and institutional framework for private sector-led gas development and for delivery of a stable supply of treated gas for power generation and for domestic, industrial, and commercial uses.
- Legal, regulatory and fiscal acts, prepared, approved and implemented by the appropriate sector ministries and regulatory agencies.
- Staff of petroleum sector management institutions (AGE and APA) trained to operationalize and oversee (regulate, manage and monitor legal/regulatory/contractual compliance) in the sector.
- Improved transparency, public understanding and oversight of the GoA's hydrocarbons resources management.
- Formal environmental and safety inspections based on good international practice for the rehabilitation of existing natural gas processing and transmission infrastructure

D. Concept Description

40. The proposed project includes two technical project components and a separate component for project management and implementation. Component 1 follows the extractive industries value chain) with an integral approach to developing and managing the natural gas value chain to transform its potential into sustainable development outcomes. Component 2 focuses on providing assistance to the GoA to operationalize specific gas development and deliverability opportunities that lead to increased access to secure energy. The integration of these two components into the project's design is intended to build government capacity to catalyze concrete investments in gas-to-power and other gas related projects.



COMPONENT 1: Extractive Sector Reforms and Capacity Building

41. **Subcomponent 1.a. Geodata Collection:** i) Geodata Acquisition, Interpretation, Management and Promotion: Gather, consolidate, update and supplement existing geodata as a basis for sector planning, investment promotion and sector development; ii) Hydrocarbons Registry: Support the development and maintenance of a Hydrocarbons Registry and its integration with decision making and day to day operations management; iii) Hydrocarbons database: Support the consolidation and processing of data from existing contracts and gather direct technical data from several natural gas fields. (Beneficiary: MoMP, AGS)
42. **Subcomponent 1.b. Legal, Regulatory and Institutional Reforms:** i) Petroleum sector framework: Revise, amend and supplement as needed a comprehensive legal, regulatory, institutional, and contractual framework for the development of Afghanistan's petroleum resources. Recommend frameworks for sector planning, regulation and oversight; ii) Institutional reforms: Support the delineation of institutional roles and responsibilities and establish the need for the setup or restructuring of sector institutions; iii) Contract Management and Technical/Financial Audit Capacity: support around contract management and building technical audit capacity for hydrocarbons contracts; iv) Implementation of Health & Safety Reforms: Develop sector specific occupational safety and health regulations and coordination mechanisms; develop and implement an H&S capacity building program; v) Implementation of Environmental and Social Reforms: Design and implement sector specific environmental and social regulations, standards, frameworks and baselines for hydrocarbons operations. Assess gender-specific impacts of the sector; vi) Framework for Oil Spill Preparedness and Response Capacity: Support actions to identify gaps regarding a National Oil Spill Contingency Plan and recommend actions to strengthen the Government's capacities in these areas. (Beneficiary: MoMP, AGE, NEPA)
43. **Subcomponent 1c. Collection of Taxes and Royalties:** i) Benchmarking of the Fiscal Regime: Support the design of reforms to secure the competitiveness, stability and effectiveness of the petroleum sector's fiscal regime through an international benchmarking process; ii) Tax Collection and Administration: Support the design of reforms to strengthen the Government's capacity to forecast, collect, verify and manage petroleum sector revenues. (Beneficiary: MoMP, MOF).
44. **Subcomponent 1.e. Sustainable Development Policies:** i) Citizen Engagement and Social Accountability: Develop a National Communications Strategy (NCS) to inform Afghan stakeholders to effectively understand, support and participate in a national dialogue on the development of petroleum resources as a source of national wealth. ii) Transparency and Accountability Reforms: Mainstream transparency and accountability across the natural gas value chain, including support to AEITI and the establishment of a GoA extractive sector information and reporting portal. (Beneficiary: MoMP)

COMPONENT 2: Operationalizing Gas and Mining Development Opportunities

45. Under SDNRP2, support was provided to the Government to develop a preliminary itemized list of capital and operating expenditure needs for AGE. Building on its prioritization and within the framework of functional responsibilities as defined in Sub-Component 1.b., component 2 will provide support for the assessment of existing gas infrastructure, leading to a comprehensive and prioritized plan for effective investments on gas collection, processing, transport and distribution.



46. **Subcomponent 2.a. Natural Gas Gathering, Processing and Transport Rehabilitation:** Assess the current gaps in natural gas gathering, processing and transport infrastructure. Propose remedies to address identified gaps so as to enable the expansion of natural gas deliveries to users (including gas-based power generation, residential, industrial, and commercial uses). Support the development and implementation of a framework for public (AGE)/private sector investment vehicles for the rehabilitation and operation of field facilities, processing and transport infrastructure capacity. (Beneficiary: MoMP, AGE)
47. **Subcomponent 2.b. Operationalizing specific gas development opportunities:** This component is meant to support contract negotiations, provide transaction advisory support and fund ancillary equipment. Subcomponents will include inter alia (a) direct support to AGE to address deficiencies in pipeline operations, maintenance and control, and gas metering and processing; as assessed under SDNRP2, it will provide (b) direct transaction advisory support to (i) the Mazar IPP, and (ii) the GoA on its participation in the TAPI pipeline project. (Beneficiary: MoMP, AGE)
48. **Subcomponent 2.c. Mining development:** Building on the achievements of SDNRPII, this component will sustain support to key development opportunities for mining, including (i) transaction support to major mineral assets previously tendered, including Aynak copper and Hajigak iron ore and the four exploration properties under TFSBO; ii) gemstones and the formalization of the small scale mining sector; (iii) Complete community resettlement at Mes Aynak, including capacity building and maintenance of the grievance redress mechanisms. Engage in broader public consultations with project affected people (PAPs); and iv) Artisanal and Small Scale Mining: Establishment of a Lapis bourse and technical assistance and training (modern mining techniques, environmental management, small business management) tailored according to the type of commodity, for gemstone and decorative stone producers. (Beneficiary: MoMP)

COMPONENT 3: Project Management, Monitoring and Evaluation

49. Support the GoA in managing and coordinating the Project and building its procurement, financial management, safeguards management, monitoring and evaluation capacity through the provision of technical advisory services, training, acquisition of goods, and operating costs.
50. A Project Preparation Advance (PPA) of up to US\$2 million has been anticipated for IDA project preparatory activities.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project covers the oil-prone provinces of the hydrocarbon-rich basins in Northern and Western Afghanistan, in addition to Mohammed Aga District in Logar Province (the site of Aynak mine).



B. Borrower’s Institutional Capacity for Safeguard Policies

The IDA funds will be channeled from Government of Afghanistan (GoA) to the implementing agency: Afghanistan Gas for Energy Access and Development Secretariat in the Ministry of Mines and Petroleum (MoMP).

The government’s capacity in safeguard policies implementation is generally weak, and awareness in social and environmental issues is limited.

MoMP has built some capacity to deal with safeguards issues in the context of SDNRP I and II. MoMP has an approved ESMF for SDNRP II.

MoMP Afghanistan also conducted Strategic Environmental and Social Assessment (SESA-EI) for the extractives Industry Sector in Afghanistan during 2013. In case of the proposed TA program, the safeguards approach will be built on this SESA. During the preparation and implementations phases, strengthening of project (GEAD) team, particularly on social and environmental dimension will be a key priority. MoMP has a safeguards (social and environmental) unit in place. This safeguards unit has been trained by the Bank during SESA studies. SDNRP II project has also invested in capacity development of NEPA to undertake reviewing, clearing and approval of ESIA’s and other environmental management issues.

An ESMF with RPF will be drafted during project preparation to manage any potential adverse environment and social impacts of the project, in compliance with the World Bank environment and social safeguards, and national laws. The ESMF will also include TOR for the assessment of social and economic impacts of the AGE institutional reform.

C. Environmental and Social Safeguards Specialists on the Team

Mohammad Arif Rasuli, Mohammad Yasin Noori

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>This policy is triggered because the proposed project will finance (i) TA activities, including: implementation of environmental and social reforms, i.e., the design and implementation of sector specific environmental and social regulations, standards, frameworks and baselines for hydrocarbons operations.</p> <p>(ii) Implementation of Health & Safety Reforms: Develop sector specific occupational safety and health regulations and coordination mechanisms; develop and implement a capacity building program.</p>



(iii) The project is preparing a Framework for Oil Spill Preparedness and Response Capacity. Support actions to identify gaps regarding a National Oil Spill Contingency Plan and recommend actions to strengthen the Government's capacities in these areas.

(iv) Artisanal and Small Scale Mining: Training on: modern mining techniques, environmental, Occupational Health and Safety Management will be tailored according to the type of mineral mines, gemstone and decorative stone miners.

(v) Support the development and implementation of a framework for private sector investment vehicles in rehabilitation and operation of field facilities, processing and transport infrastructure capacity.

(vi) Natural gas deliverability: Assess current gaps in natural gas gathering, processing and transport infrastructure to increase natural gas deliverability and use. Support the expansion of natural gas deliverability for gas-based power generation capacity under current consideration; deliver stable supply of treated gas for power generation and for domestic, industrial, and commercial use.

(vii) Oil exploration activities in certain areas of the country.

(viii) Strengthening of project team, particularly on social and environmental dimension will be a key priority.

Whereas the TA project will in and by itself not finance, the actual investments themselves, if and whenever and wherever they are implemented, will potentially lead to significant and widespread adverse environmental and social impacts. For these reasons, the proposed project is assigned an EA Category B.

In General, the nature, type and physical locations of the relevant sites will be determined by the Borrower. The Borrower will prepare an Environmental and Social Management Framework (ESMF) for the proposed project as a whole, to



ensure a process is put in place that would ensure the required environmental and social studies and plans are prepared when needed in compliance with Afghanistan's own requirements and with OP4.01 and other triggered Bank safeguards policies. In addition, there is a need to carry out an implementation level Environmental Impact Assessment (EIA) of sector specific regulations, standards, frameworks and baselines situation of the hydrocarbon sector to function as a starting point for the relevant needed reforms. The EIA activities will commence concurrently but independently with other project activities.

The ESMF will also contain the requisite comprehensive Terms of Reference (ToR) for the EIA's and management plans. Furthermore, the ESMF will have the relevant Principles, Check lists, Negative lists, guidelines, and other procedures to be applied for each relevant component and set forth the principles and procedures/directives to be followed by the Borrower once the physical locations of the proposed activities will be known.

The ESMF will also comply with the WBG EHS Guidelines as well with the country relevant laws and regulations.

The ESMF will also contain specific guidelines to determine linked and/or associated facilities.

The draft ESMF and the TORs for the EIA's and RAP(s) will be subjected to meaningful and participatory stakeholder consultations both in Kabul and in the affected areas of the project.

Once completed, prior to project appraisal, the ESMF will be reviewed and cleared by the Bank and then ultimately disclosed both in relevant places, and in the format and languages understandable for the local people in the country and at the WB InfoShop prior to appraisal.

Because of the Oil Exploration in certain areas of the country the ESMF will also mandate preparation of ESMPs in these relevant mentioned areas of the



country. However, the preparation of such ESMPs would be during implementation stage once the sites for oil and gas exploration are identified.

Furthermore, the country has major issues and capacity constraints in Environmental management of investment projects and for managing Occupational Health and Safety issues in the mining as well as hydrocarbon sectors as well as in the construction industries.

But, the proposed project will benefit from the Strategic Environmental and Social Assessment (SESA) of the Mining sector that was prepared under another Bank funded TA project, as the SESA recommendations which included capacity building of the National Environmental Protect Authority (NEPA) and preparation of EIA guidelines for the mining sector are being implemented.

Natural Habitats OP/BP 4.04	TBD	The proposed activities in relation to exploration and drilling for natural gas prone and oil-prone provinces of the hydrocarbon-rich basins in Northern and Western Afghanistan will need to be examined to determine whether any natural habitat conversion would occur.
Forests OP/BP 4.36	TBD	The proposed project does not trigger this policy as specific information on location of potential future investments are not yet known. However, the ESMF will include screening measures to ensure Forests as defined by the policy, if affected, are identified during the feasibility planning and ESIA process, and OP4.36 will then subsequently be triggered by the specific investment if needs be, and the appropriate management measures will be determined and taken as part of ESIA process.
Pest Management OP 4.09	No	This Policy is not triggered. However, the ESMF will provide the necessary screening measures to determine if this policy is to be triggered by specific investments when they are identified.
Physical Cultural Resources OP/BP 4.11	TBD	Since the specific location and priorities are yet to be identified, Cultural Property Impacts are not known at this point. The ESMF will have provisions to identify impacts and prepare mitigation measures.



		The ESMF will also comprise guidelines for Chance Find Procedures according to national law.
Indigenous Peoples OP/BP 4.10	No	This policy is not triggered as there are no Indigenous Peoples that meet the criteria of OP/BP 4.10 within the oil-prone provinces of the hydrocarbon-rich basins in Northern and Western Afghanistan that could potentially benefit or be adversely affected by the Project's activities.
Involuntary Resettlement OP/BP 4.12	Yes	<p>This policy is triggered because the proposed activities under subcomponent 1.a. in connection with the Geodata Acquisition “ exploration and drilling for natural gas prone and oil-prone provinces of the hydrocarbon-rich basins in Northern and Western Afghanistan”, may recommend some land acquisition. Further, other TA activities, such as transaction advisory support, which will focus on TAPI, Sherbagon, and the Mazar IPP, are also expected to involve land and resettlement impacts. The specific locations and priorities for these activities cannot be identified before project appraisal, the Borrower will prepare an Environmental and Social Management Framework (ESMF) and a standalone Resettlement Policy Framework (RPF) for the proposed project to guide preparation of site-specific ESMPs and RAP(s) (where needed).</p> <p>The subcomponent 1.b. activities in connection to implementation of Institutional Reforms to be introduced into the Afghan Gas entity are expected to cause some labor, social issues that would be associated with restructuring (number of employees eligible for reskilling versus redeployment to other sectors versus retirement, and customer services). MoMP will undertake an assessment of social and economic impacts prior to these reforms. The implementation of Environmental and Social Reforms in the hydrocarbons sector will also be subject to an Environmental and Social Impact Assessment to assess potential downstream impacts of these reforms, including other sector specific regulations, standards, and frameworks.</p> <p>The ESMF will include TOR for the Assessment of Social and Economic Impacts of AGE institutional reforms and TOR for Environmental and Social</p>



Assessment to assess potential downstream impacts of the proposed reforms in the hydrocarbon sector. The ESMF and RPF should build on the results of SESA for mining sector developed under SDNRP II during-2013.

The proposed project will also assume responsibility to complete implementation of Aynak’s Supplementary Resettlement Action Plan (S-RAP).

SDNRP-II has supported the original RAP developed in 2012 and the new S-RAP developed in FY16 for Mes Aynak copper site. The ongoing SDNRP-II will close in end of June 2016. However, the implementation process for the S-RAP for Mes Aynak copper site will continue beyond FY16. And MoMP will rely on Bank support for implementation of this S-RAP implementation. The new GEAD project will also support MoMP in grievance handling related to S-RAP implementation for Mes Aynak copper site

Safety of Dams OP/BP 4.37	No	This policy is not triggered given that the project will not support the construction or rehabilitation of dams nor will support other investments which rely on the services of existing dams
Projects on International Waterways OP/BP 7.50	No	This policy is not triggered because the proposed project doesn’t involve dam construction.
Projects in Disputed Areas OP/BP 7.60	No	There is no any disputed area as defined under this policy

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Nov 08, 2016

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The ESME, RPF, including TOR for assessment of social and economic impacts study will be prepared prior to appraisal.

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APPROVAL

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