



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Mar-2019 | Report No: PIDC26371

**BASIC INFORMATION****A. Basic Project Data**

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|--|--|--|--|
| Country Afghanistan | Project ID P170179 | Parent Project ID (if any) | Project Name Afghanistan Extractive Sector Development Project (AESD) (P170179) |
| Region SOUTH ASIA | Estimated Appraisal Date Apr 04, 2019 | Estimated Board Date Jun 24, 2019 | Practice Area (Lead) Energy & Extractives |
| Financing Instrument Investment Project Financing | Borrower(s) Islamic Republic of Afghanistan | Implementing Agency Ministry of Mines and Petroleum | |

Proposed Development Objective(s)

To support the Government of Afghanistan to create the conditions to attract investment in the energy and extractive sectors and to manage and monitor those investments, by building institutional capacity and strengthening its gas infrastructure

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

| | |
|---------------------------|-------|
| Total Project Cost | 70.00 |
| Total Financing | 70.00 |
| of which IBRD/IDA | 65.00 |
| Financing Gap | 0.00 |

DETAILS**World Bank Group Financing**

| | |
|---|-------|
| International Development Association (IDA) | 65.00 |
| IDA Grant | 65.00 |

Non-World Bank Group Financing

| | |
|-------------|------|
| Trust Funds | 5.00 |
|-------------|------|



Afghanistan Reconstruction Trust Fund

5.00

Environmental and Social Risk Classification

High

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. Substantial improvements in development outcomes have been observed in Afghanistan since 2001, particularly in expanded access to water, sanitation and electricity, and improved outcomes in education and health. Moreover, following the economic shock of the withdrawal of international troops, the associated decline in aid and deterioration in security, the Afghan economy has regained momentum as reforms have been implemented and confidence restored. However, some gains are now being eroded and risks are arising from the prospects of political instability around the 2018-2019 elections. Business confidence is declining, and economic activity is slowing. Civilian casualties remain at unprecedented levels in 2017 (10,451 killed or wounded) and 2018 (8,050 in the first 9 months). Some areas of the country remain difficult to access because of insecurity.
2. Real GDP growth, after accelerating to 2.7 percent in 2017 from a low of 1.5 percent in 2015, is projected to moderate to 2.4 percent in 2018 amid growing political and security concerns around the parliamentary and presidential elections. Growth is expected to accelerate further to 3.7 percent by 2021 assuming a smooth political transition after the 2018-19 elections. With the population growing at 2.7 percent, however, the projected growth path will not be strong enough to improve incomes and livelihoods for most Afghans.
3. The poverty rate in Afghanistan has increased significantly: from 38 percent in 2011/12 to 55 percent in 2016/17. It is expected to remain high in the medium-term, driven by weak labor demand (despite an increasing labor force) and security-related constraints on service delivery. Living standards are further threatened by the worsening drought conditions and displacement (more than 1.7 million Afghans are internally displaced, and more than 2 million have been returning to Afghanistan – mostly from Pakistan and Iran – since 2015).
4. Stronger growth is predicated on improvements in security, political stability, steady progress with reform, and sustained aid. Growth could also be enhanced by mobilizing investment in extractives, energy and connectivity, building and harnessing the skills of Afghanistan’s youth and women, and taking steps to realize the job creation potential of agriculture and agribusinesses.



Sectoral and Institutional Context

5. Afghanistan has a large and diverse natural resource endowment including oil, natural gas, copper, coal, marble, construction materials, iron ore, gold, lithium and other industrial minerals that provide the nation with a diversity of development opportunities. The development of these resources represents a potential source of revenues, shared prosperity and economic growth, fostering infrastructure and economic linkages (water, rail, roads, power). But if poorly managed, the extraction of these resources has globally shown to contribute to income disparities, poor human development outcomes, macro-economic distortion, and (at times) conflict.
6. The fact that hydrocarbon and mineral production have made only a modest contribution to sustainable economic development in Afghanistan is not altogether surprising. There is an increasing body of evidence that improved governance of the sector is essential in any resource-rich nation; and that building such governance systems comes only through a prolonged and programmatic approach, underpinned by a robust up-to-date sector strategy. In conflict-affected states, the time required to establish strong sector governance may require more than two decades, depending on broader fostering of transparent, accountable mechanisms backed by strong active citizen engagement.

Minerals Sector

7. While to-date, most mining activities in Afghanistan is in the informal artisanal and small scale sub-sector, there are also some medium size mines operating throughout the country. In addition to these, Afghanistan has the potential for larger scale mining such as Aynak (copper) and Hajighak (iron ore) that could bring significant revenue to the government, simulate local economic development and regional linkages, and provide formal employment for skilled and unskilled workers. As such, considerations for the impact and future requirements on infrastructure and the economic linkages from proposed mining operations (*resource corridor* studies) is an important aspect of developing the country's mining.
8. By 2010/11, development of Afghanistan's minerals was identified as the single most important lever to diversify the economy, create employment and raise government revenues. Most widely discussed resources include (a) both the Aynak copper resource and the Hajigak iron ore deposits that have been partially inventoried, providing expectation for larger economic impact and development of associated infrastructure, and (b) highly prospective mineral deposits which were tendered in 2015 for exploration with support from the United States Taskforce for Business Stability and Operations (TFBSO).
9. The tender of the **Aynak copper deposit** in 2007, with technical assistance from the World Bank, demonstrated the interest of international investors to further explore the nation's mineral endowment. Since then, across more than ten years of World Bank support aimed at bringing good international practices to a complex set of issues at Aynak - including contractual terms and conditions and contract monitoring, environmental compliance, resettlement and compensation, and management of physical cultural resources – there remains a compelling need for a comprehensive programmatic approach which is a combination of IPF, Bank-executed grant assistance, strong supervision and one-on-one coaching of ministerial counterparts.
10. The government has an integrated approach that supports the coexistence of mining and physical cultural resources. A 2017 MOU between the Ministry of Information and Culture (MoIC) and MoMP includes archeological measures that range from salvage archaeology of smaller physical cultural resources to in situ preservation of larger physical cultural resources - all of which is elaborated in a Cultural Heritage Management Plan (CHMP) prepared by MoIC with assistance from UNESCO.



Hydrocarbon Sector

11. The development of Afghanistan's hydrocarbon resources has been identified as a critical link for securing long-term energy security, economic growth, diversification and stability for the country. Over the short-term, indigenous gas resources offers opportunities for increased energy access and security, for reduced dependence on imported energy sources (electricity and fuels), and creates the space for the deployment of variable, intermittent renewable energy. Hydrocarbons development has the potential to 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.
12. Since 2002 the MoMP has been strengthening the enabling environment for private/commercial sector investments, targeting further exploration and development of previously producing fields. Internationally competitive hydrocarbon tender rounds have confirmed investor interest, but unaddressed impediments to investment across the gas value-chain remain. After a decade of efforts, Afghanistan has yet to demonstrate a fully integrated "proof of concept" investment to develop and deliver natural gas to credit worthy customers.
13. **Mazar and Sheberghan Independent Power Plant (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 main gas-to-power projects are being considered: (a) a 50 MW gas-based plant in Mazar-e-Sharif ("the Mazar IPP"), and (b) a 40 MW gas fired IPP in Sheberghan IPP ("the Sheberghan IPP"). The implementation of both projects will be dependent on confirmed access to sufficient and sustainable gas supply from currently productive fields; sustained investment in the development of upstream gas production and processing capacity (Amine Plant) to ensure long-term gas supply to these and other industrial projects will be critical.
14. The continued lack of adequate investment in and maintenance of gathering, processing and transport facilities represents a significant hurdle for the immediate expansion of production to sustain any growth in natural gas demand for power generation and other applications near Sheberghan and Mazar-e-Sharif.

Institutional Framework for the Extractive Industries

15. **Ministry of Mines and Petroleum (MoMP).** During the last decade, MoMP has undergone a sustained restructuring process that has included the divestment of most production-gearred activities to state owned enterprises (SOEs) such as Afghan Gas Enterprise (AGE) and Northern Coal Enterprise (NCE), while retaining the role of a policy-making, monitoring and oversight. Core project monitoring and regulations is carried out by the MoMP, however on-going capacity strengthening is needed for the Ministry to be able to adequately discharge its duties.
16. **Afghanistan Oil and Gas Regulatory Authority (AOGRA).** AOGRA, formally created by decree (September 2018) as an independent regulator with an organizational structure separate from that of MoMP, is charged with responsibility for contractual and regulatory oversight over the oil and gas value chain, including exploration, development, processing, transport and commercialization of hydrocarbon resources. With support from the ARTF's ASIST window, the Bank has been providing immediate capacity building and advise to the newly established institution, particularly on its organization structure and mandate.
17. **Afghan Gas Enterprise (AGE).** As an SOE, the AGE is listed among the Ministry of Finance's assets with a dotted-line reporting to MoMP. AGE was formed in 1967 to explore and develop natural gas in Afghanistan and became a Government enterprise in 1983. In 2014/15, with support from the Second Sustainable Development of Natural Resources Project (SDNRP2, P118925), an assessment was undertaken to corporatize AGE's operations.



18. **Afghanistan Extractive Industries Transparency Initiative (A-EITI).** The Secretariat for the A-EITI is housed within the MoMP. The World Bank’s support of the EITI, and its promotion of dialogue on contract disclosure, beneficial ownership and revenue transparency, citizen engagement through awareness raising and public consultations, and the establishment of a non-discretionary mining cadaster, all point to the foundational importance of the role of citizens in the extractive industries in ensuring good governance, transparency, and accountability. The multi-stakeholder nature of the EITI has also provided a valuable forum for dialogue among the industry, civil society and industry stakeholders. The International EITI Secretariat's carried out preliminary assessment of AEITI on November 1, 2017 and Jan 19-25, 2018 with the conclusion was that most of the provisions in the EITI Standard were not fully addressed. Recommendations and suggested corrective actions made by International EITI Secretariat to address shortcomings relate to licensing, export data, distribution of revenues, economic contribution and state participation, including quasi-fiscal expenditures and that a recommendation to suspend Afghanistan's EITI membership, which was agreed by the EITI Board. The Bank through several EITI grants and its second Sustainable Development of Natural Resources Projects (SNDP2, P118925) and an on-going Project Preparation Grant (PPG) has been providing on-going support to AEITI and will continue to do so through this proposed project.
19. **Other Ministries and agencies** involved in the management and regulation of the mining and hydrocarbon sectors include Ministry of Finance (contract finance, taxes, and royalties), NEPA (environmental oversight), Ministry of Interior (security), Ministry of Public Works (associated infrastructure), Ministry of Energy and Water (electricity), Ministry of Urban Development and Land (land management/use), and the Ministry of Information and Culture (management of cultural heritage).

Relationship to CPF

20. The proposed project is aligned with the World Bank Group’s Country Partnership Framework (CPF) for FY17-20. The framework 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”. Under Objective 2.5: 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 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.



C. Proposed Development Objective(s)

To support the Government of Afghanistan to create the conditions to attract investment in the energy and extractive sectors and to manage and monitor those investments, by building institutional capacity and strengthening its gas infrastructure [PDO to be reviewed during project preparation].

Key Results (From PCN)

- (a) Strengthen capacity of the MoMP to lead on transparent, non-discretionary licensing of minerals and hydrocarbons
- (b) Reform of Afghanistan Gas Enterprise (AGE), to sustain upstream gas production, processing and mid-stream gas transport, necessary for increased energy access through IPPs.
- (c) MoMP and MoIC are guided by good international practices on resettlement and management of physical cultural resources at Aynak copper project.
- (d) Percentage of improved citizen and CSO engagement and perception of sector benefits (implementation of awareness and outreach program, as measured by survey results, i.e., Fraser Institute).
- (e) Increased capacity of NEPA, AOGRA and MoMP (later AMA) to inspect and regulate HSE and contractual performance of the medium and large-scale mining and hydrocarbon operations.

[Results indicators to be reviewed during project preparation]

D. Concept Description

- 21. The proposed project incorporates those priorities highlighted in the MoMP sector Roadmap aimed at facilitating institution strengthening and regulatory restructuring. The project design relies heavily upon citizen engagement and investor input through preparation of a comprehensive Strategic Environmental and Social Assessment (SESA, 2014), and project safeguard documents over the past year.
- 22. The project has four components as follows: **Component 1 - Supporting Mining Transactions; Component 2 – Sustaining Gas Supply; Component 3 - Strengthening Policy and Regulatory Institutions; and Component 4 - Project Management.** A summary of each of the components is provided below.

COMPONENT 1: SUPPORTING MINING TRANSACTIONS

- 23. The objective of this component is to support mineral transactions and resource development based on good international industry practices. This component will provide targeted transactions support to mining related investments in the near and mid-term, clarifying investment requirements and other technical assistance. This sub-component will focus on providing direct support to the government on Aynak copper mine. Sub-components include the following:
 - 24. **Subcomponent (1a). Operationalizing mining development opportunities.** (*Beneficiaries: MoMP*). This subcomponent will focus on activities associated with providing transaction support for Aynak Copper mine development.
 - 25. **Subcomponent (1b) Archeological Preservation at Mes Aynak.** (*Beneficiaries: MoMP, MoIC and the national museum*) Mes Aynak archeological activities and downstream capacity building for conservation, archive management and presentation / education. Building on the achievements of SDNRP2 and the project preparation grant this component will sustain support to integrating the protection of physical cultural resources into ongoing resource development, particularly related to the Mes Aynak Archeological Project.



COMPONENT 2: SUSTAINING GAS SUPPLY

26. The objective of this component is to support the sustained supply of gas through targeted transactions support to hydrocarbons related investments in the near and mid-term, and supporting AGE through financing of both technical assistance and gas processing and transport (pipeline) infrastructure needed to ensure the sustained supply of natural gas for power generation.
27. **Subcomponent (2a). Operationalizing Gas Development Opportunities.** (*Beneficiaries: MoMP, AGE, AOGRA*). This subcomponent will provide direct transaction advisory support to the GoA on its participation in Yatimtaq fields and the Totimaidan block.
28. **Subcomponent (2b) Gas Infrastructure** (*Beneficiaries: AGE, MOMP*). The objective of this subcomponent it to provide technical support to MoMP and AGE to ensure sustainable natural gas deliverability including the development, production, processing, transport and distribution value chain, initially in compliance with supply commitments assumed by the government with the Sheberghan and Mazar IPPs and, eventually, for the use of domestic natural gas for industrial, commercial, residential and transport use.

COMPONENT 3: STRENGTHENING POLICY AND REGULATORY INSTITUTIONS

29. The objective of this component is to address the institutional, contractual and regulatory gaps that have emerged in the management of Afghanistan's mineral and hydrocarbon resources, thereby improving predictability, transparency and functionality of the sectors. Emphasis will be given to the MoMP upstream role as policy-maker and establishment of sector regulatory bodies as part of the MoMP mining sector roadmap, such as the AOGRA. This component will support the restructuring, reinvigoration, and development of those institutions responsible for managing the hydrocarbons and mining sector, in particular the MoMP and AOGRA.
30. **Subcomponent (3a). Institutional Development for the Management of the Extractive Sector.** (*Beneficiaries: MoMP, AOGRA, AGE*). The aim of this component is to support the restructuring and reforming those institutions charged with managing the extractives sector, in accordance with the strategy set out in the Government's new sector roadmap and the provisions of the new hydrocarbons and mining Laws. This subcomponent will also support the building of IT infrastructure of the systemization of contracts management, revenue collection and administration. In addition, this subcomponent is aimed at strengthening regulatory and monitoring institutions governing upstream minerals and hydrocarbon activities. This subcomponent may also provide some immediate support associated with the legal aspects of AGE corporatization (drafting of bylaws and attendant approvals and authorization) and capacity building.
31. **Subcomponent (3b). Citizen Engagement, Transparency and Sustainable Development.** (*Beneficiaries: MoMP, AOGRA, MoF*). Support will be provided to enhance Citizen Engagement, Transparency and Sustainable Development, including strengthening environmental and social standards associated with the sector and implementation of EITI.



COMPONENT 4: Project Management, Monitoring and Evaluation

32. Project management is embedded within the respective implementing agencies including MoMP and MOIC, and includes support to cover incremental operating costs, project management staff costs (consultants), monitoring and evaluation of project activities, and compliance with Bank fiduciary and safeguards requirements. This component will also finance direct capacity building to be implemented through direct contracts with qualified NGOs on citizen engagement to enable more effective public information disclosure as well as related public consultation processes.

| Legal Operational Policies | Triggered? |
|---|------------|
| Projects on International Waterways OP 7.50 | No |
| Projects in Disputed Areas OP 7.60 | No |



Summary of Screening of Environmental and Social Risks and Impacts

The proposed Project will follow the World Bank E and S Standards (ESSs), of which the following are triggered: ESS1 - Assessment and Management of E&S Risks and Impacts; ESS2 Labor and Working Conditions; ESS3 Resource Efficiency and Pollution Prevention and Management; ESS4 Community Health and Safety; ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement; ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources; ESS8 Cultural Heritage; and ESS10 -Stakeholder Engagement and Information Disclosure; The overall E & S risk classification for AESD is high at this stage. The Key factors considered are the following: The Potential Social Safeguards Risk- there are complex land acquisition issues related to Mes Aynak resettlement, a legacy activity from the previous SDNRP II project- the Mes Aynak RAP implementation has experienced significant delays. The new activities under component 1 “construction of the gas pipeline from Sheberghan to Mazar-e-Sharif and installation of a new amine” are also expected to involve land acquisition impacts. Cultural Heritage impacts are also expected to occur, as the project covers the Mes Aynak archaeological site, for which the Government, with technical inputs from UNESCO, has already prepared a Cultural Heritage Management Plan (CHMP). Besides this, the project activities carry risks associated with influx of Labor, labor management issues and Gender-Based Violence (GBV), as some of the mining sites to be supported under Components 1 and 2 are likely to involve labors from outside the project impact areas. The Potential E Risk- Whereas the TA part of the project by itself will not have potential environmental impacts, whenever and wherever the future extractive activities are implemented, such as the investment component of building a pipeline from Sheberghan to Mazar, there could potentially be significant and widespread adverse environmental, Occupational Health and Safety impacts and risks. The nature, type and physical locations of the mining sites (except for the gas pipeline from Sheberghan to Mazar -Sherif) to be supported under Components 1 and 2 are not known, and a framework approach will be adopted. Prior to appraisal, an ESMF and a RPF will be prepared. For the gas pipeline, because of fragility, conflict and security concerns, a framework approach will be adopted plus preparation of a corridor ESIA. The ESMF and a stand-alone RPF will be prepared and subject to the review and no-objection of the Bank. The site specific ESIA, ESMP and Resettlement Action Plans (RAP) for will be prepared during implementation, on the basis of the specificity of the activities and proposed designs. For preparation of ESIA and ESMP, the World Bank ESF and relevant national laws and regulations will apply. The Environmental and Social Commitment Plan (ESCP) will be prepared before appraisal and would be updated as needed during project implementation. The Mes Aynak site has GRM system in place and ministry is making effort to strengthen functionality of GRM for this site. A project GRM will also be designed and set up to cover all sites to be supported under this proposed project. In addition to the GRM to be set up specifically for project workers as required und ESS2. The draft ESMF, RPF for AESD Project plus ToRs for the ESIA and RAPs will be subject to meaningful and participatory stakeholder consultations both in Kabul and in the affected areas of the project. These documents will be disclosed to all stakeholders in relevant project-specific sites in the country, in formats and languages understandable by the local population. It will also be disclosed on the WB external website prior to appraisal. As the borrower has limited capacity, all activities to be supported under the AESD will be subject to prior review and approval by the Bank until it is established that adequate capacity exists within the Government.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.



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APPROVAL

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The World Bank

Afghanistan Extractive Sector Development Project (AESD) (P170179)
