

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED  
SAFEGUARDS DATA SHEET (PID/ISDS)  
CONCEPT STAGE**

**Report No.:** PIDISDSC17177

**Date Prepared/Updated:** 09-Jun-2016

**I. BASIC INFORMATION**

**A. Basic Project Data**

<b>Country:</b>	Afghanistan	<b>Project ID:</b>	P158768
		<b>Parent Project ID (if any):</b>	
<b>Project Name:</b>	First Resource Corridor Project (P158768)		
<b>Region:</b>	SOUTH ASIA		
<b>Estimated Appraisal Date:</b>	15-Sep-2016	<b>Estimated Board Date:</b>	24-Jan-2017
<b>Practice Area (Lead):</b>	Trade & Competitiveness	<b>Lending Instrument:</b>	Investment Project Financing
<b>Sector(s):</b>	Oil and gas (20%), Other Mining and Extractive Industries (20%), General industry and trade sector (60%)		
<b>Theme(s):</b>	Micro, Small and Medium Enterprise support (30%), Other Private Sector Development (20%), Social Inclusion (10%), Other environment and natural resources management (10%), Infrastructure services for private sector development (30%)		
<b>Borrower(s):</b>	Islamic Republic of Afghanistan		
<b>Implementing Agency:</b>	Ministry of Mines and Petroleum		
<b>Financing (in USD Million)</b>			
<b>Financing Source</b>			<b>Amount</b>
Borrower			0.00
Afghanistan Reconstruction Trust Fund			35.00
IDA recommitted as a Grant			0.00
Total Project Cost			35.00
<b>Environmental Category:</b>	A - Full Assessment		
<b>Concept Review Decision:</b>	Track II - The review did authorize the preparation to continue		
<b>Is this a Repeater</b>	No		

<b>project?</b>	
<b>Other Decision (as needed):</b>	

## B. Introduction and Context

### Country Context

Afghanistan's economy urgently needs sustainable sources of long-term inclusive growth and employment. The data reveals that GDP per-capita is among the lowest in the world; poverty is deep and widespread; social indicators are at very low levels; dependence on foreign aid as well as security expenditures are very high; unemployment is high and 400,000 entrants join the labor force each year; and demographic pressures are exacerbated by significant numbers of returning internally displaced persons (IDPs) or refugees.

International experience has shown that strong growth is necessary, although often not sufficient, to reduce poverty. How can this be achieved? First, new sources of growth driven increasingly by the private sector will be important for jobs and growth in the post-transition period: such growth should be more inclusive and be accompanied by strong and stable job creation. Second, the expansion of service delivery going forward will need to pay increasing attention to targeting and effectiveness. Third, fiscal stability and development progress will require significant efforts to mobilize revenues and prioritize spending going forward: in parallel, the country must develop commercial financing sources to supplement public funds.

### Sectoral and Institutional Context

Mining Sector:-

The Government of the Islamic Republic of Afghanistan (GoIRA) has acknowledged that the mining sector is one of its priorities. This is reflected in its vision paper "Realizing Self Reliance: Commitments to Reforms and Renewed Partnership," presented at the London Conference on Afghanistan in December 2014, where extractive industries, together with agriculture and transport, are recognized as the three key sectors over the next decade. The follow-up paper "Afghanistan's Road to Self-Reliance: The First Mile Progress Report" describes ambitious plans for a National Mineral Sector Program. GoIRA has now recast the 22 National Priority Programs (NPPs) into 12 "National Programs" (NPs): NP12 is the National Mineral Sector Program.

Afghanistan's extractive resource base is large and uniquely undeveloped. In light of Afghanistan's tremendous potential, extractive industries can provide government revenues to bridge the fiscal gap in the medium term. The country has a portfolio of mines, from well-known assets in minerals (copper, coal, iron ore, gold) and hydrocarbons (oil and gas), to more speculative deposits in these assets as well as lithium and others. The sector represents a potential driver of economic growth and revenue generation that is less reliant on public investment given the role of the private sector to pool capital. Yet discussions of the sector's potential suffer from a lack of balance and agreement. On the one hand, some write off its development as too difficult, unlikely, or long-term; or fear it as a potential driver of poor governance (e.g., rent-seeking activity, exacerbated corruption and elite capture of resources) and conflict ("resource curse"). On the other hand, some tout it as a panacea and a means, on its own, to eventual self-sufficiency.

Recent developments have exacerbated the challenges faced by the extractives sector. These include: (i) deteriorating security situation, including heightened activity by the Taliban and ISIS

in "mining-rich" areas, with minerals being the Taliban's second-biggest income source after narcotics; (ii) falling global commodity prices and profitability, making it more difficult for mining companies to take on risky investments; (iii) realignment of GoIRA strategy to develop small mineral deposits instead of flagship mining projects in the short-term due to lack of capacity to manage large mines; and (iv) delays and contractual disputes facing the sector, in particular the country's two biggest mining projects in Aynak and Hajigak. The extractives sector also faces investment climate constraints such as incomplete and poorly enforced policy and regulatory framework, underdeveloped physical infrastructure and constrained access to factor markets (land, finance, skills). As a consequence of these challenges, Afghanistan has earned only US\$30 million in 2015 from its mineral sector, far short of previous projections.

Unlocking the potential of extractives will require progress on the legislative and regulatory framework, governance and transparency, and building capacity of institutions. Good governance is critical, particularly in a fragile context with weak institutions: uncertainty in fiscal policy, non-transparent or discretionary decision-making processes, or a lack of clarity regarding roles and responsibilities (obligations between government, community, and investor) can have devastating impact on a long term growth strategy. In Afghanistan, the GoIRA has been working to strengthen policy and regulatory instruments and provide strong transparent, non-discretionary administration for more than a decade, but much remains to be done:

(a) **Mining Law:** The Mining Law, ratified by Parliament in 2014, represents a significant step forward towards aligning laws and regulations in Afghanistan's mining sector to international good practice. However, concerns remain with respect to security of tenure in which the investor has the right to move from an exploration to exploitation license subject to regulatory compliance (Article 54), transfer of licenses (Article 29), and the unstated need for full contract transparency and beneficial ownership of investing companies. The Law is undergoing an amendment under the GoIRA.

(b) **Extractive Industries Transparency Initiative (EITI):** Afghanistan endorsed the principles of EITI in 2010. The process of validation of compliance with EITI standards is targeted for October 2016. It will be important to achieve full compliance to ensure that all revenues are traceable, published, and framed contextually, including public disclosure of key mining agreements and terms. GoIRA should ensure that the benefits of extractives development are shared through the budget and more directly.

(c) **Public-Private Partnerships (PPP):** The PPP Policy will draw directly from the PPP Regulations (under the Procurement Law amended in October 2015) and is expected to be finalized shortly with support from the PPIAF-funded PPP TA. As per a recent Cabinet decision, Ministry of Finance (MoF) is now the home for the Central PPP Unit.

(d) In addition, lack of contract management and procurement skills in GoIRA has recently been identified as a key constraint. There is a need to build core capacity of relevant institutions in the extractives space in, inter alia: technical, legal, project management, procurement, accounting and auditing, contract compliance monitoring, and safeguards.

Resource Corridors:-

A resource corridor is a concept to enable private sector development (PSD) around extractives

sector. It is fundamentally a PSD approach, albeit with strong links to mining, infrastructure, and other sectors. It is defined as a sequence of investments and actions to leverage a large extractive industry investment in infrastructure, goods and services, into viable economic development and diversification along a specific geographic area. The concept implicitly has existed for some time: in a sense, the developed world itself industrialized along resource corridors, whether the coal belt in northern England, the iron and steel of the sillon industriel in Belgium, or the Ruhr Valley in Germany. In recent decades, resource corridors have been developed, inter alia, in Chile, Australia, South Africa, Madagascar, Mozambique and Zambia.

A resource corridor approach can multiply the mine's job and growth impacts by enabling PSD around the mine. Extractive industries are on their own rarely transformative: even in an optimistic scenario, the number of direct jobs created is likely to not exceed a few thousand at its peak: it is estimated that direct labor needs for Amu Darya, Aynak and several other deposits will peak / stabilize at between 10,000 and 15,000; and, at full production, Aynak might generate 1,000 direct jobs, but most will be semi-skilled, requiring training and experience beforehand. Indirect and induced job impacts will be larger: Empirical data indicates that indirect employment multipliers of 2-3x have been achieved in supply chain in low income countries (e.g., in Africa), and 5-6x in middle-income countries (e.g., in Chile). Similarly, infrastructure related investments, for example power and road can unlock growth across sectors- jobs impact is huge but difficult to quantify (e.g., 10x multiplier reported in Ghana). Even so, these job numbers are a drop in the ocean given the 400-500K new entrants into the Afghan job market each year. However, if even a modest supply chain is successfully developed around a mine and downstream investments take place, direct job creation may still remain limited but indirect job creation in upstream and downstream sectors could be materially significant in an optimistic scenario. The largest job effects will occur, however, through induced activities enabled by the public goods created by leveraging resource-related investments (e.g., expanded and more reliable electricity generation and access, higher quality roads, small and strategic investments along the corridor).

Leveraging extractives for PSD requires commitment to a long-term strategy and a focus on infrastructure, jobs and livelihoods, governance, and safeguards. Resource opportunities require time to complete exploration, feasibility studies, regulatory approval and construction. Smaller incremental investments can progressively build into larger commercial operations over long periods of time. Such a long-term strategy requires policy stability, backed by adherence to a vision regarding the roles and responsibility of the government and investor to grow the sector and deliver benefits to all Afghans. The authorities had recognized the importance of developing Resource Corridors in the National and Regional Resource Corridors Program (NRRCP). Implementation of a "Resource Corridor" strategy is essential to leverage extractive industry investments by combining actions in four areas: physical infrastructure (now aligned to NP1 "National Infrastructure and Connectivity Development Program"), livelihoods (now aligned to NP7 "Private Sector Development Program" and NP8 "Human Capital Development Program"), environmental and social impact (now aligned to NP4 "Rural Development Program"), and governance (now aligned to NP6 "Effective Governance Program" and NP10 "Public Financial Management Program").

A practical first step in developing resource corridors is to sequence investments to establish "proof of concept". There will be significant challenges and risks that will need to be addressed by combining and sequencing "soft" and "hard" interventions to maximize economic impact and inclusive job creation. Synergies between public and private sector actions will need to be found

and leveraged: here, one approach explored under this series of projects is PPPs. The approach should allow sequencing of actions: both to avoid wasted investments if negative scenarios materialize and to quickly capture benefits if uncertainties are resolved positively. Initial efforts to establish "proof of concept" in resource corridor segments that are identified as "more ready" (or even around a promising individual mine or a specific PPP investment) could focus on demonstrating that the private investments are made in a transparent manner and the projects are yielding tangible benefits; if yes, the resource corridor program can subsequently be scaled up and expanded to other geographies and deposits.

Previous analytical work has identified the short-, medium- and long-term actions needed to achieve this. The first such segment to come online will be developed in the north, around the hydrocarbons. The second will be in the East, anchored on Aynak and possibly the coal fields, while also touching the gold deposit at Qara Zaghan mine in Northern Baghlan province; however this needs to be re-assessed in light of recent developments, including the progress of the Aynak contract. The third segment is not anchored on any specific resource investment, but connects the country and expands the number of transport options for each of the resource investments and associated activities. This segment - the "trans Hindu Kush" - is anchored on the Salang Tunnel and on a North-South transmission line which bypasses the Salang. The final segment anchors on energy and steel, with a number of options depending on the size and nature of the actions to be taken that will be clarified only after the first 2-3 years of exploration and the types of downstream activity that may or may not emerge.

### **Relationship to CAS/CPS/CPF**

Afghanistan's potential marks extractive industries as one of the few significant sectors that could drive future growth. The Systematic Country Diagnostic (SCD) highlights that extractive industries can serve as an imperative source of confidence and growth, as well as provide government revenue to bridge the fiscal gap in the medium term in the wake of declining aid budget and rising security costs. The SCD recognizes that extractives themselves may not produce large numbers of jobs, but leveraging the resources and building linkages can stimulate job creation in upstream and downstream sectors (for example, by utilizing natural gas in the power sector).

The resource corridor approach is central to the third pillar of the most recent ISN (2012-14): "Inclusive growth and jobs". Under that pillar, the ISN "argues for focusing the Bank's engagement around the concept of Resource Corridors which link up mineral resources, infrastructure, communities and employment-creating sectors (agriculture, construction, enterprise development) in a way that provides growth and jobs beyond the borders of the mines, and potentially paves the way in the longer term for Afghanistan to become an important land bridge between international markets."

The proposed First Resource Corridor Project (ARCP-1) follows the ISN's selectivity framework on large infrastructure. Based on this framework, ARCP-1 opts out of the financing of infrastructure projects, on the grounds that other development partners and mining investors (existing or potential) are taking, or should take, the lead in most cases. ARCP-1 will therefore not itself finance infrastructure directly; it will, however, undertake limited preparatory work for what the resource corridor will likely need, so that, if circumstances warrant, either the Bank or other donors can rapidly begin construction. The SCD underscores the potential of engaging private sector in infrastructure projects through PPs. ARCP-1, in close coordination with Public-Private Infrastructure Advisory Facility (PPIAF), IFC Advisory and MIGA, will provide support

for enabling private sector investments in infrastructure, by financing preparatory work needed to structure such transactions, including through pre-feasibility and feasibility studies for a few PPPs.

ARCP-1 aims to strategically address gaps along the Resource Corridors. The project will work closely with other WBG teams, in particular Extractives, Infrastructure, Governance, Finance & Markets, and IFC. Given the potential complexity of this project, the array of technical expertise that will be required of the counterparts is broad, making it critical to leverage and engage other donor and WBG programs (including IFC and MIGA) so as not to have serious absorption issues. Specifically, the project aims to closely coordinate with:

- a) Mining sector projects, in particular SDNRP-II (P118925) and the proposed Afghanistan Gas for Energy Access and Development (GEAD) Project
- b) Recently approved Trans Hindu Kush Road Connectivity Project (P145347)
- c) Proposed Support to Afghan Land Authority (P153932)
- d) Skills Development Project-II (P132742), Higher Education Development Project (P146184) and NATEJA (PP146015)
- e) Other WBG entities/projects including Governance, IFC (for co-investment possibilities) and MIGA (for guarantees)

ARCP-1 will be complemented by an ongoing PPIAF funded technical assistance program. The PPIAF technical assistance program began in October 2015 and is providing in-depth support to the Central PPP Unit established within MoF. The program is expected to run until Q3 FY2017. Some progress has been made with regard to the legal and regulatory framework: the Procurement Law has been amended with a new article that specifically permits the procurement of public infrastructure services by PPPs, and PPP Regulations (which will sit under the Procurement Law) have been drafted and are expected to be approved shortly. This will provide a solid legal and regulatory environment for PPP projects to proceed, including those projects to be prepared under ARCP-1. In addition, a PPP Policy has been drafted and is now in the process of modification in order to align it with the PPP Regulations. Finally, a longlist of PPP projects is under preparation following close coordination with line ministries and major donors, and it is expected that two pre-feasibility for projects that are eligible for ARCP-1 will be completed by Q2 FY2017. Specifically, the program is focused around three key pillars:

- a) PPP Framework: Support to improve the policy, legal, regulatory, and institutional environment for PPPs;
- b) PPP Project Pipeline: Development of a PPP prioritization methodology, identification of a long-list of PPP projects, and selection of two priority projects for pre-feasibility analysis;
- c) PPP Capacity Building: Training needs assessment and development of PPP capacity building program for the Central PPP Unit staff and GoIRA officials.

## C. Proposed Development Objective(s)

### Proposed Development Objective(s) (From PCN)

The Project Development Objective is to create an enabling environment for: (a) attracting private investments and (b) facilitating SME linkages in key resource corridors in Afghanistan.

### Key Results (From PCN)

- Number of resource corridor related PPP/private investment contracts signed;
- Value of resource corridor related PPP/private investment contracts signed;
- Number of Afghan SMEs upgrading or forming new linkages with anchor PPP investors under

the project.

#### **D. Concept Description**

The First Resource Corridor Project (ARCP-1) will be the first in a Series of Projects (SOP). The ARCP SOP approach is designed to be robust to the extractive sector's uncertainty while purchasing options for the future by building in flexibility. Given Afghanistan's fluid environment, the first project in the series is intended to undertake pilots that meet immediate needs and can provide demonstrable proof-of-concept evidence to scale-up in future projects. ARCP-1 will not itself invest in large-scale hard infrastructure, but it will undertake the preparation work for a range of such investments which will be viable if positive scenarios materialize. Investments in soft infrastructure are tied to the first major deposits along the hydrocarbons and copper segments. As such, the project aims at bridging the gap until major uncertainties are resolved (e.g., first exploration results, commodity prices, security) while ensuring that, should positive scenarios result, minimal time is lost in taking advantage of the resulting opportunities, but in negative cases the downside will be limited. This would mirror private sector investments by facilitating early, smaller-scale investments, and laying the groundwork for much larger capital investments.

ARCP-1 will focus on "soft" infrastructure and limited technical preparation for hard infrastructure in the first segment expected to come online: hydrocarbons in the north and the Aynak copper deposit in the east. ARCP-1 would serve three purposes: signal commitment to the resource corridor approach; pursue quick wins in line with the proposed results indicators; and prepare for the next, larger-scale phases of the resource corridor strategy, to be in part financed under SOP-2. To maintain momentum with respect to the resource corridor approach, Bank and donor commitment needs to be signaled soon and tangible actions need to get underway. Currently, this is particularly necessary given the recent challenges being faced by the extractives sector. ARCP-1 would provide tangible momentum to the resource corridor approach and demonstrate initial commitment. Subsequent projects under the SOP would expand the resource corridor project's scope in geographical (i.e. to other regions such as Helmand-Gwadar), sectorial (i.e. beyond hydrocarbons and copper), and investment (i.e. possibly financing "hard" infrastructure within the contours of the ISN's selectivity model) terms.

ARCP-1 will be delineated in its geographic focus. As the first in a series of projects approach, ARCP-1 could focus on the following areas (or "hotspots"): (i) Sherbeghan - Mazar-e-Sharif, (ii) Amu Darya Basin, (iii) Afghan Tajik Basin, (iv) Aynak, and (v) with connections to Kabul as economic epicenter. The selection of these areas are based on preliminary consultations with the client and experts; depending on evolving conditions, precise geographic focus might change.

ARCP-1 will be delineated in its sectorial focus. In upstream sectors, ARCP-1 could include (in order of priority): (i) oil & gas; (ii) copper; and (iii) optionally gemstones. In downstream sectors and allied value chains, ARCP-1 could emphasize (in order of priority): (i) "Gas to Power"; (ii) chemicals where there are links to mining (e.g., fertilizer); (iii) construction. These geographic and sector focus have emerged from consultations with: (i) GoIRA especially MoMP, (ii) private sector firms including potential investees, (iii) other developmental partners, (iv) other WBG teams and projects. These options will be narrowed during project preparation.

The proposed ARCP-1 timeline would provide continuity to the resource corridor approach in the

coming years. The project is expected to become effective in winter 2016/17, with initial procurement packages tendered during preparation and signed shortly after effectiveness.

The project will consist of three components. Component 1 will be core to the project: it will aim to crowd-in private investment in resource corridors, including through facilitating PPPs. This is one of the few ways for GoIRA to attract and enable projects which cannot be funded by the exchequer. Flowing from component 1, component 2 will aim to strengthen local economic development along resource corridors: this will be done through a focus on SMEs. Component 3 is project management.

#### Component 1: Attracting private investment into resource corridors (US\$23.0 million)

The component will aim to lay the foundation for attracting private investment into resource corridors in the medium term. ARCP-1 will focus largely (but not exclusively) on PPP investments, principally those that will have a strong PSD aspect: these will be further detailed during project preparation where a concrete and detailed longlist of PPP projects will be developed.

##### Sub-component 1a. Strengthening Public Private Partnerships (PPP) capability (US\$1.0 million)

Due to Afghanistan's infrastructure needs and GoIRA's fiscal constraints, GoIRA is eager to encourage private participation in infrastructure to benefit from private sector know-how, efficiencies, and financing capacity. It is expected that this private participation will be in the form of traditional PPPs, concessions, and other outsourcing arrangements. However, given that there has been little experience of private participation in infrastructure in Afghanistan to date, there is currently limited capacity within GoIRA to identify, prepare, tender, and manage projects of this kind.

In order to leverage private sector investments, and particularly PPPs, the GoIRA needs to build the capacity to undertake and manage PPP transactions, as well as to put in place a PPP policy and regulatory framework. The GoIRA recognizes the criticality of this work in its vision paper "Realizing Self Reliance: Commitments to Reforms and Renewed Partnership" (December 2014) which states "Developing natural resources through public-private partnerships that bring in rents, taxes, and profits" is a priority area to restore fiscal sustainability.

Work to develop the appropriate PPP policy and regulatory framework has already been initiated through a PPIAF-funded Bank executed technical assistance program. It is expected that PPP Regulations will be passed shortly, and the PPP Policy is also under preparation. In addition, the PPIAF program will also support capacity building for Central PPP Unit staff and other GoIRA officials involved in PPP-related activities, building from existing and prior capacity building provided by a separate DFID-funded program (implemented by Harakat, an Afghan consulting firm specializing in investment climate related support). ARCP-1 will finance related and follow-on recipient executed activities: this would include, inter alia, the strengthening of the Central PPP Unit within MoF, the preparation of guidance materials on all aspects of PPP project identification, preparation, tendering, and management, and practical hands-on support to the Central PPP Unit and line ministries in the development of specific projects under ARCP-1.

##### Sub-component 1b: Investment Preparation for PPP/private investment sub-projects (US\$6.0



million)

Given Afghanistan's lack of PPP experience and capacity, and the challenging investment environment, it will be prudent to focus broadly on private sector investment opportunities that may enable private sector development and private sector-led growth linked to extractives. It is expected that such opportunities will be focused on core infrastructure sectors such as energy, transport, and water; and on PSD opportunities that could include agribusiness (e.g., cold storage, agricultural industrial zones, and abattoirs), logistics (e.g., dry ports, warehousing, and other logistics clusters), and other opportunities with strong value chain and growth potential (e.g., cement and fertilizer factories, gemstone bourse).

The Central PPP Unit will work together with relevant entities (e.g., MoMP, MoF, Afghanistan Investment Support Agency - AISA) to identify potential PSD investments along hydrocarbons and copper, in the range of US\$10 to US\$200 million, which might be candidates for PPP support. In order to systematically prioritize these opportunities, ARCP-1 will use the PPP evaluation criteria developed under the PPIAF technical assistance program (e.g., GoIRA interest/commitment; risk of crowding-out the private sector: private investment will always be prioritized over any public/donor co-investment). The project will then finance pre-feasibility studies for up to twenty (20) qualifying PPP sub-projects in extractives and allied industries, principally along Aynak, Amy Darya and Afghan-Tajik. Pre-feasibility studies for a PPP sub-project will not be undertaken if one already exists and is of satisfactory quality and is recent. This sub-component will be initiated independent of the progress made under sub-component 1a: given the country context, it is generally agreed that individual PPP transactions can proceed on a case-by-case basis in the absence of a fully formed legal framework since this would allow "learning by doing" (the Mazar IPP being a case in point). It is expected that the first 2-3 projects selected for pre-feasibility study in the first year will derive from long-list and prioritization exercise undertaken under the PPIAF technical assistance program. Further project opportunities will then be identified and evaluated on an ongoing basis through ARCP-1, with an expectation that 4-5 projects will be selected to undergo pre-feasibility study through each year of ARCP-1 implementation.

These pre-feasibility studies will produce sufficient information to allow the GoIRA to make an informed decision on whether to proceed with each sub-project under a PPP arrangement. Each pre-feasibility study will be a stand-alone document and is estimated to cost approximately US \$300k on average in Afghanistan. Specific outputs of each pre-feasibility study would include:

- (a) Preliminary site identification and selection (accounting for preliminary assessment of satisfactory availability and provisioning of adequate security, physical infrastructure, electricity, land, and any other critical success factors that are beyond the scope of ARCP-1)
- (b) Preliminary technical due diligence
- (c) Preliminary financial and economic due diligence
- (d) Preliminary environmental, social and gender due diligence
- (e) Preliminary legal due diligence: A related effort will focus on identifying potential regulatory risks that can deter potential investors, and suggesting mitigation measures.
- (f) Preliminary market sounding and demand assessment

Sub-component 1c: Transaction Advisory for PPP/private investment sub-projects (US\$14.0 million)

Based on the outputs of the pre-feasibility studies under sub-component 1b, the GoIRA will decide whether or not to proceed with a PPP sub-project. It is estimated that up to ten (10) PPP sub-projects will receive a "go". For each "go" PPP sub-project, the project implementing entity, with support from the Central PPP Unit, would hire a transaction advisor under this sub-component. The transaction advisor would undertake the full feasibility study (project due diligence) for each "go" PPP sub-project. Full feasibility studies for a PPP sub-project will not be undertaken if one already exists and is of satisfactory quality and is recent. Each full feasibility study is estimated to cost approximately US\$1.0 million on average in Afghanistan. Specific outputs of each full feasibility study would include:

- (a) Final site identification and selection (accounting for detailed assessment of satisfactory availability and provisioning of adequate security, physical infrastructure, electricity, land, and any other critical success factors that are beyond the scope of ARCP-1)
- (b) Detailed technical due diligence
- (c) Detailed financial and economic due diligence
- (d) Detailed legal due diligence
- (e) Detailed environmental, social and gender due diligence, including ESIA's and RAPs (if any)
- (f) Full market sounding, leading to a concrete short-list of potential investors
- (g) Communications plan, if required
- (h) Evaluation of financing options, i.e. access to long-term finance for investments, bankability of sub-projects, and available financing structures and interventions required

The full feasibility studies will allow the transaction advisor to structure each transaction appropriately. For each sub-project, the feasibility study will be reviewed by the Central PPP Unit and submitted to the Cabinet to give the green light to move to procurement/tendering. It is estimated that approximately four (04) PPP sub-projects will be approved by GoIRA for tendering under ARCP-1. Each tendering process is estimated to cost approximately US\$1.0 million on average in Afghanistan. For each tender, the transaction advisor will:

- (a) structure the potential terms for such an investment (including financing options)
- (b) draft the tendering package (e.g., RFQ, RFP, PPP Contract)
- (c) conduct an open tendering and procurement process to select the private investor

Per accepted good practice, the same transaction advisor will prepare both the full feasibility study and the tendering package since both feed into each other.

A key complementary activity included here will be an elevated focus on marketing and investment promotion efforts for the identified PPP transactions, to facilitate private participation. For example, the transaction advisor will engage closely with any investors (private sector, donors, multilaterals, banks and others) identified during the demand assessments undertaken while preparing the pre-feasibility and feasibility studies, so that the tendering and procurement process bears fruit. Focused investor workshops and road shows could also be funded under this sub-component.

Sub-component 1d. Unallocated (US\$2.0 million)

This sub-component is included to allow flexibility to capture unanticipated future opportunities after 1-2 years, at which time these funds will be re-allocated to specific activities.

## Component 2: Facilitating private sector linkages along resource corridors (US\$6.0 million)

### Sub-component 2a. Small-medium enterprise (SME) participation in extractives and allied value chains (US\$5.5 million)

The project will work with key private sector development stakeholders, including, inter alia, Ministry of Commerce and Industry (MoCI) and domestic firms, to increase the capability of local SMEs located around the pilot PPP sub-projects. As a secondary objective, SMEs along sections of the broader Northern Hydrocarbons and South-Eastern Copper Corridors could also be engaged. A segmented approach to service delivery, focusing on specific SME-level needs, will be on offer under this sub-component.

As a first step, the sub-component will support the gathering/updating of SME data around identified PPP sub-projects. It will then select which SMEs to support based on specific eligibility criteria.

As a second step, analytic and advisory support (specialized technical and business development services, training and consulting) will be provided to:

- (a) Facilitate the "matchmaking" and building of linkages between anchor PPP sub-project investors and selected local SMEs;
- (b) Provide one-on-one / on-site "operational consulting" services to selected local SMEs to:
  - (i) increase their production (output) levels of domestic goods and services that can feed the tier-2 (secondary) and tier-3 (tertiary) supply chains emerging from the PPP sub-projects;
  - (ii) upgrade their quality standards to meet the service level agreements and secure necessary certifications required by anchor PPP sub-project investors from their vendors and service providers;
  - (iii) support business services such as equipment procurement, inventory management, and marketing.

In addition, this sub-component will also support local technical and business development service providers, as well as local skills development institutions, given the severe lack of such critical supporting services in the Afghan private sector. Specifically, this sub-component will contribute to the development of an employable cadre of professional/skilled human resources around the identified PPP sub-projects. The sub-component will complement other Bank funded projects on skills development and aims to fill related gaps to ensure employability and jobs for local communities along resource corridors. This could include, inter alia: (a) connecting relevant TVET/higher education institutions (e.g. in Mining and related areas) to PPP sub-projects to promote local content participation; (b) facilitating targeted job fairs and local recruitment drives for each PPP sub-project; (c) arranging practical industry exposure visits for teachers and internships for students in PPP sub-projects; and (d) working with TVET institutions to develop skills standards and relevant curriculum materials with participation from SMEs and local TVET authorities (linked to Ministry of Education and Ministry of Labor).

### Sub-component 2b. Unallocated (US\$0.5 million)

This sub-component is included to allow flexibility to capture unanticipated future opportunities after 1-2 years, at which time these funds will be re-allocated to specific activities.

### Component 3: Project Management (US\$6.0 million)

#### Sub-component 3a. Project Preparation Grant (US\$2.7 million)

The Resource Corridor Secretariat in MoMP, and Infrastructure Development Cluster Secretariat in the Ministry of Public Works (MoPW), received a Project Preparation Grant (TF014845). The PPG was extended four times on account of elections, political uncertainties and changes in government priorities. During this time, the two Secretariats arranged a series of workshops and seminars relevant to resource corridors in three zones; contributed to the Extractive Industry Development Framework (EIDF); piloted internship programs; contributed to amendments to the Land Acquisition Law and Land Management Law; managed the Community Development Agreements (CDA) agenda; funded training programs and exposure visits on upstream oil and gas asset management for civil servants.

#### Sub-component 3b. Project Implementation (US\$2.3 million)

The institutional home of the Project Implementation Unit (PIU) for ARCP-1 will be identified during preparation. This sub-component will finance the PIU until it is mainstreamed into the Tashkeel; and will also finance on-demand technical expertise required for other components of the project. Further details on PIU and implementation arrangements are provided in Section III. C. Implementing Agency Assessment.

#### Sub-component 3c. Communications and Public-Private Dialogue (US\$1.0 million)

ARCP-1 and the resource corridor program overall will require vigorous communication, to ensure sustained and enhanced stakeholder understanding and buy-in among the GoIRA, the general public, investors, domestic private sector, affected communities and development partners. This activity, especially Public-Private Dialogue (PPD), will be central to the success of the project.

## II. SAFEGUARDS

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

Project will finance pre-feasibility studies for up to twenty (20) qualifying PPP sub-projects (out of which full feasibility will be developed for four sub-projects) in extractives and allied industries, principally along Amu Darya, Afghan-Tajik and Aynak.

According to the United States Geological Survey (USGS) most of the unexploited crude oil occurs in the Afghan-Tajik basin and most of the unexploited natural gas is located in the Amu Darya basin. These two basins encompass an area of approximately 515,000 square kilometers. These hydrocarbon-rich basins in Northern Afghanistan are part of the greater Amu Darya river basin areas.

Mes Aynak is a site 40 km (25 mi) southeast of Kabul, located in a barren region of Logar Province. The site contains Afghanistan's the world's second largest copper deposit, which looms as major revenue source for Afghanistan.

Aynak is also a vast complex for over twenty ruin locations, including numerous 5th-6th century Buddhist monasteries, as fortress and evidence of even older Bronze Age Settlements buried beneath

the rubble of ancient copper mines.

In 2008 MJAM-MCC a Chinese company was awarded a contract to recover the copper resources for the government of Afghanistan. It is a major project for Afghanistan in terms of employment, training, revenue and infrastructure development.

To give a complete picture of these vast areas there is a need to have proper assessment which should be undertaken during the later stages of the project especially during the preparation of ESIA's and/or ESMPs. However, at the concept stage the following explanation regarding the physical characteristics which would be relevant to safeguards issues are provided.

There is no any Natural Habitat or protected Area close to the Aynak site. SESA undertaken by Adam Smith Consultants for MoMP has found that there is currently lack of water resources in the absence of the Aynak project and finding water for processing the Aynak Copper Mine is a big challenge to be resolved.

Since there will be tailing dams and chemical waste production on the site if not managed properly, this could contaminate the precious groundwater of Logar rive aquifer, potential drinking water resources of Kabul city population, located downstream inside the project area of influence. Government has undertaken the ESIA preparation of the Aynak site but it has yet to be disclosed .

The nature, type and physical locations of the four PPP investment projects will be determined by feasibility studies to be carried out during implementation of the proposed project. Therefore, the ESMF and RPF will be prepared prior to project appraisal to guide preparation of ESIA, ESMP and RAP (where needed).

### **B. Borrower's Institutional Capacity for Safeguard Policies**

The ARTF funds will be channeled from Government of the Islamic Republic of Afghanistan (GoIRA) to the implementing agency: Resource Corridor Secretariat in the Ministry of Mines and Petroleum (MoMP).

The government's capacity in safeguard policies implementation is generally weak, and awareness in 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 of 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 (ARCP-1) team, particularly on social (including gender) and environmental dimension will be a key priority. MoMP has a safeguards (social and environmental) unit in place. This safeguards unit, including other key units within MoMP and stakeholders for resource corridors program, has been trained by the Bank following the recommendations of the SESA. 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.

### **C. Environmental and Social Safeguards Specialists on the Team**

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Mohammad Arif Rasuli (GEN06)

Mohammad Yasin Noori (GSU06)

Shankar Narayanan (GSU06)

#### 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 preparatory TA activities, including feasibility studies of potentially significant and large infrastructure investments in the extractives and allied industries. Whereas the TA project will in and by itself not finance these investments, 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 A.</p> <p>The nature, type and physical locations of the investment projects will be determined by feasibility studies to be carried out during implementation of the proposed project, 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 these investments are identified, in compliance with Afghanistan's own requirements and with OP4.01 and other triggered Bank safeguards policies.</p> <p>Therefore, the ESMF will mandate the preparation of full Environmental and Social Impact Assessments (ESIAs) that will commence concurrently but independently with the Feasibility Studies for each investment. The ESMF will also contain the requisite comprehensive Terms of Reference (TORs) for the ESIAs and management plans.</p> <p>Furthermore, the ESMF will have the relevant Principles, Check lists, Negative lists, guidelines, and other procedures to be applied for each investment and set forth the principles and procedures/directives to be followed by the Borrower once the physical</p>

	<p>locations of the proposed activities will be known.</p> <p>The ESMF will also comply with the WBG EHS Guidelines as well with the country relevant laws and regulations.</p> <p>The ESMF will also contain specific guidelines to determine linked and/or associated facilities. If existing investments are included, the ESMF will include provisions for carrying out environment and social due diligence; and the RPF will include due diligence procedures for land acquisition and resettlement of existing investments.</p> <p>Also, the ESMF will also include an analysis of potential cumulative and induced impacts in the relevant corridors benefiting from the existing SESA (mentioned further below) as the natural resources development in relatively narrow area would entail potential cumulative/induced environmental and social impacts. The ESMF will also entail guidelines for specific ESIA's to undertake CIAs where relevant.</p> <p>Finally, as it is proposed that laboratory equipment might be supplied in universities, schools and other institutions as part of Sub-component 2a, the ESMF will have provisions for simple ESMPs to ensure the potential environmental impacts such as chemicals and waste management, wastewater generation, and minor civil works related to the supply of laboratory equipment are also properly addressed.</p> <p>The draft ESMF and the TORs for the ESIA's and RAP(s) will be subjected to meaningful and participatory stakeholder consultations both in Kabul and in the affected areas of the resource corridors.</p> <p>Once completed, 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.</p> <p>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</p>
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		<p>sector as well as in the construction industries.</p> <p>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.</p>
Natural Habitats OP/BP 4.04	TBD	The proposed project might trigger this policy as specific information on location of potential future investments are not yet known and might be at critical locations. Therefore, the ESMF will include screening measures to ensure Natural Habitats as defined by the policy, if affected, are identified during the feasibility planning and ESIA process, and the appropriate management measures will be determined and taken as part of ESIA process.
Forests OP/BP 4.36	TBD	The proposed project might trigger this policy as specific information on location of potential future investments are not yet known and might cover critical forest sites. Therefore, 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, 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	Yes	<p>At this stage, it is very well known that the resource corridors listed in the PCN contain some of Afghanistan's most treasured Physical Cultural Resources (PCR), including some of the mining sites (i.e. Aynak copper site) that have historical or cultural resources. The ESMF will include screening provisions for evaluating potential impacts and will provide specific guidance for the preparation of requisite management plans.</p> <p>The ESMF will also comprise guidelines for Chance Find Procedures according to national law.</p>
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 along the resource corridors that could potentially benefit or be adversely affected by the Project's activities.
Involuntary Resettlement OP/ BP 4.12	Yes	<p>The project triggers OP 4.12 given that full feasibility studies for future PPP/private sector investment projects may recommend some land acquisition and resettlement (no direct land acquisition is anticipated as a result of this TA project).</p> <p>The nature, type and physical locations of the PPP projects in extractives and allied industries 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 ESIA and RAP(s) (where needed).</p> <p>If existing investments are included, the ESMF will include provisions for carrying out environment and social due diligence; and the RPF will include due diligence procedures for land acquisition and resettlement of existing investments.</p>
Safety of Dams OP/BP 4.37	TBD	This policy may be triggered given that at least one site, Aynak copper mine site will have tailing dam and producing of hazardous chemical materials and the dam safety issue should be properly addressed.
Projects on International Waterways OP/BP 7.50	TBD	The proposed project is not expected to affect international water. However the ESMF will include the process for screening and assessing impacts of investment on international water. The ESMF and ESIA processes will determine whether specific investments will have impacts on water quantity and quality in any of Afghanistan's water resources that meet the definition of International Waterways.
Projects in Disputed Areas OP/ BP 7.60	No	There is no any disputed area as defined under this policy.

## E. Safeguard Preparation Plan

### 1. Tentative target date for preparing the PAD Stage ISDS

29-Jul-2016

### 2. 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 PAD-stage ISDS.

The ESMF and RPF will be prepared prior to appraisal.

**III. Contact point****World Bank**

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**V. Approval**

Task Team Leader(s):	Name: Suhail Kassim	
<b><i>Approved By</i></b>		
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Practice Manager/ Manager:	Name: Esperanza Lasagabaster (PMGR)	Date: 27-May-2016
Country Director:	Name: Stephen N. Ndegwa (CD)	Date: 09-Jun-2016

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.