## Project Information Document (PID)
### Concept Stage

<table>
<thead>
<tr>
<th><strong>Project Name</strong></th>
<th>Afghanistan Resource Corridor Project (P145443)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Region</strong></td>
<td>SOUTH ASIA</td>
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<tr>
<td><strong>Country</strong></td>
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<td><strong>Sector(s)</strong></td>
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<td>Ministry of Finance</td>
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<td><strong>Implementing Agency</strong></td>
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<td><strong>Environmental Category</strong></td>
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<td><strong>Date PID Prepared/Updated</strong></td>
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<td><strong>Date PID Approved/Disclosed</strong></td>
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<td><strong>Estimated Date of Board Approval</strong></td>
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<td><strong>Concept Review Decision</strong></td>
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## I. Introduction and Context

### Country Context

1. The Afghan economy needs sustainable sources of long-term inclusive growth. The extremely high level of current annual aid (estimated at $15.7 billion in 2010) is roughly the same dollar amount as Afghanistan’s GDP and will not be sustained at such levels post 2014. This slowdown in aid will exert a drag on the overall economy at a time when growth is vitally needed to cope with fiscal and demographic pressures. Growth, under reasonably optimistic scenarios, is projected to fall from a ten year average of over 9% to between 5-6% in 2011-18. By 2021/22, the Government of Afghanistan (GoA)’s financing gap is projected to be 25% of GDP. Unemployment and underemployment, already at 8% and 48% in 2009/10 is projected to rise just as the labor force is expanding by 300,000 new entrants per year.
2. Resources and agriculture are the only sectors with the potential to drive such growth. While Afghanistan’s growth is projected at an average annual rate of 4.9% during the period of the transformation decade (2014-2025), there is a potential to increase it to 6.7%, depending on an appropriate enabling environment, including security, and good progress in the two key drivers of growth: agriculture and the resource sector. In a high-growth scenario, the latter will directly contribute 3 percentage points to growth during 2014-2017, and then 1.6 percentage points in 2018-2025. However, this growth will not be inclusive unless it is leveraged to create broader benefits and growth breaks out of “enclave” investments. The Government of Afghanistan’s resource corridor strategy seeks to achieve this, leveraging the resource sector for transformation – prioritizing public and private investments through the four dimensions of governance, livelihoods, environmental and social impact and infrastructure.

**Sectoral and Institutional Context**

3. Afghanistan's resource base is large and uniquely undeveloped. The country has a portfolio of minerals, from well-known assets in copper, coal, iron ore, gold and oil and gas, to more speculative deposits in those minerals as well as lithium and others. Yet discussions of the sector’s potential suffer from a lack of balance: on the one hand, some write off its development as unrealistic and long-term, or fear it because of ideas of the ‘resource curse’ or ‘resource conflict’; on the other, some tout it as a panacea and a means, on its own, to self-sufficiency.

4. In reality, the extractive industry can be both a blessing and a curse, and on its own it is rarely transformative. Investments will only reach maturity over the long term, but some impact may be felt early. Even then, the resource sector on its own will be large but not transformative: by the 2020s it may create some 10-20,000 jobs and approximately $700mn-1.5bn in government revenue, but the former is a drop in the ocean and the latter already factored into projections (i.e., will not on their own replace aid flows). As such, the sector’s impact must be multiplied for it to be a boon to the country.

5. A “resource corridor” is a development more than a geographic concept. 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 north 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 in Chile, Mozambique, Zambia and elsewhere.

6. In Afghanistan, the Government has recognized the importance of such an approach in the National and Regional Resource Corridor Program (NRRCP), one of the National Priority Programs (NPPs). While it is important to retain a sense of balance – a resource corridor will not be a panacea – it can be a powerful approach to generating inclusive growth from a sector that otherwise might be an enclave of isolated activities. There will be significant challenges and risks, particularly around governance and the timing of the resource investments. These 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. The approach taken must be robust to the significant uncertainty ahead, ranging from political and security to commodity markets and exploration results, to sequencing actions...
both to avoid too much waste if negative scenarios materialize and to quickly capture benefits if uncertainties are resolved positively.

7. If that can be done, then within the limits of the possible the resource corridor can be a new source of inclusive growth in the transformation decade. While direct job creation will be limited, as described above, if a modest supply chain is successfully developed, and downstream investments – in particular, in a steel mill – take place, indirect job creation could reach 100,000, in an optimistic scenario. The largest job effects will occur, however, through induced activities enabled by the public and club goods created by leveraging resource-related investments (e.g., expanded and more reliable electricity generation and access, higher quality roads, small and strategic communal investments along the corridor). While problems of attribution make estimates of such an effect difficult, there is some evidence that in environments like Afghanistan they could generate an order of magnitude more jobs and improved livelihoods.

8. Prior analytical work (funded by AusAID) has identified the short-, medium- and long-term actions needed to achieve this. A large, rapid program of multi-sectoral studies – across the four themes mentioned above (governance, livelihoods, environmental and social impact and infrastructure) – was prepared for the Tokyo Conference, in July 2012, which led into an integrated action plan along four segments, with options for extension in the long term. 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 the coal fields, while also touching the gold deposit at Qara Zaghan. 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 “cross Hindu Kush” – is anchored on the Salang Tunnel and on a North-South transmission line which bypasses the Salang. Both of these critical investments relate to the point noted above, that the resource corridor is a development more than a geographic concept, and both align closely with strategies and plans developed within sector processes (e.g., the Salang being identified as a critical road investment in transport plans and the transmission line fitting in the Power Master Plan). The final segment anchors on energy and steel, with a number of options on the size and nature of the actions to be taken that will be clarified only after the next two to three years of exploration (e.g., dimensions of the steel mill and potential downstream activity; voltage level of power transmission).

9. The Afghanistan Resource Corridor Project (ARCP) would serve three purposes: signaling commitment; pursuing quick wins; and preparing for the next, larger-scale phase of the program. To maintain momentum on the resource corridor, Bank and donor commitment needs to be signaled now and tangible actions need to get underway. This is particularly necessary at present given the ongoing dialogue around the prioritization of large-scale infrastructure, in which multiple competing interests are present. In that regard, providing tangible momentum to the resource corridor, and demonstrated ‘skin in the game’, is likely to raise its profile in decision making (versus, for example, more speculative, long term or politically motivated prioritization). ARTF funding would reinforce coordination and buy-in, as well as allow more flexible approval and an ability to scale up if conditions permit. The first stage of this program, presented here, would focus on soft infrastructure, high-cost technical preparation for hard infrastructure, and critical rehabilitation.

Relationship to CAS
10. The resource corridor approach is central to the third pillar of the ISN (April, 2012): “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 ISN also focuses on supporting the Government’s National Priority Programs (NPPs), of which the resource corridor – as the NRRCP – is one of the most prominent.

11. The ARCP aims to strategically address gaps in the resource corridor approach. Many actions to implement the resource corridor are being undertaken through projects by other donors (for example, the ADB, the AITF, AusAID, DFID, and USAID), or through other Bank and ARTF projects, current or prospective. The resource corridor analytical work has already and continues to inform the design and implementation of those projects. The ARCP is explicitly designed to undertake only those crucial activities not already covered in such projects, or to enable future projects by investing in preparatory work for them.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

16. The Project Development Objective is to prepare a platform of “hard” and “soft” infrastructure that will enable Afghanistan to derive broader economic benefits from the development of its extractive industries.

17. The project aims to:

   a. Support the accelerated realization of private sector anchor investments in the resource sector, and
   b. Leverage those investments for broader benefits, through: (i) preparing incremental investments that can create public goods; and (ii) investing in soft infrastructure that builds the capabilities of national and local firms, communities and job-seekers to benefit from the resource sector.

Key Results (From PCN)

- Five large infrastructure investments – public, or public-private – optimized to deliver public goods under uncertainty, ready to begin construction alongside or prior to next round of large extractive investments
- Travel times for both extractive industries and general public to remain at least constant or at best improve along a critical resource corridor highway
- Skills provision (public and private) closely targeted to extractive industry investor requirements, enabling 70-80% local employment in direct jobs in the sector, estimated to be around 5,000-8,000 in the initial years, depending on timing and scale of investments
- Benefits increased in wider economy through national and local firms supplying part of 15 moderate capability sub-categories of goods and services for Amu Darya and Aynak, plus 50% (by value) of low capability goods and services
- Effective land acquisition enabled along proposed road, rail and transmission routes through land title clearance
- Ongoing community benefit sharing around major extractive investments through implemented community development agreements
In this phase “hard” infrastructure results will relate principally to preparation and rehabilitation. The definition of outcomes will be refined during preparation.

III. Preliminary Description

Concept Description

14. The current ARCP project will be the first step in a larger program. The overall program will consist of: this grant, the ARCP Phase I; potentially a risk guarantee facility to enable private sector investments; two self-standing infrastructure investments, the Salang Tunnel and a potential North-South Transmission Line; and, if the environment remains positive, potential investments, by various development partners and/or the private sector, in the infrastructure projects prepared under the facility (such as a multi-modal rail terminal or a small gas-fired power plant).

15. The ARCP will focus on soft infrastructure, preparation activities for hard infrastructure, and rehabilitating and enabling the maintenance of key roads. Specifically, the project will consist of four components, corresponding to the four dimensions of the resource corridor approach. These components are further described below.

Component (i) Infrastructure Facility ($40m)

16. Investment preparation: The Infrastructure Development (ID) Cluster Secretariat will coordinate among the Infrastructure Cluster Ministries to conduct full feasibility studies and Environment and Social Impact Assessments (ESIAs); and if appropriate, design studies and Resettlement Policy Frameworks (RPFs), Environment Management Plans (EMPs), etc., for hard infrastructure in the Resource Corridor strategy. The initial pipeline of investments to be prepared includes: the North-South transmission line (Mazar-Bamyan-Kabul); Mazar-Kunduz road upgrade; and the development of the middle and upper Logar aquifers (security permitting). These are expected to account for two-thirds of the allocated funds, with the remainder held as a contingency, e.g., for gas pipeline or gas distribution, or selected rail investments. The arrangements for pre-screening and approving preparation will be detailed during appraisal, and will pay attention to balancing ownership by sector ministries and ensuring preparation is only for investments with a good likelihood of success. It will be important to ensure that the preparation activities funded are for infrastructure that clearly relates to the resource corridor, i.e., which accelerates and/or leverages large extractive industry investments, underpins inclusive growth and which is, in the early phases, justifiable even without extractive investments.

17. Risk facility development: The PPP unit of the Ministry of Finance (to be established) will work together with the NRRCP Secretariat and other relevant entities to identify potential private sector investments, in the range of $10-200m, that might be candidates for support through a partial risk guarantee (PRG), and will thereafter structure the potential terms for such an investment, conduct an open bidding process to select the private sector investor, and work with the international community to prepare the risk guarantee instrument. The ARCP will fund this preparation work, but will not be able to be used as a risk guarantee in itself. That might be provided either through an IDA grant (as in many PRGs), or through an escrow arrangement that leverages existing funding structures (e.g., the ARTF or AITF). For specific deals, the initial pipeline includes: a multi-modal rail to road terminal in Mazar-i-Sharif, to leverage rail investments for broader benefits; a small-scale, 50MW single-cycle gas-powered IPP in the north, using gas...
from Sheberghan; or, alternately, gas distribution in Mazar to a large industrial user.

18. **Key road rehabilitation and upgrade:** The Ministry of Public Works, with support from the ID Cluster Secretariat, will also undertake the rehabilitation of key road segments. This will include one of the following: the rehabilitation of the Jalalabad-Torkham road (committed to by the Government of Pakistan, but with unknown current status); preparatory work for the Salang Tunnel repairs (to accelerate implementation of that project); or the upgrade of access roads for a PPP multi-modal terminal in Mazar-i-Sharif.

Component (ii) **Livelihoods ($13m)**

19. **Matchmaking facility to increase local content:** The NRRCP Secretariat will work with the Ministry of Commerce and Industry (MOCI) to increase the ability of the national and local private sector to enter the supply chains of the oil and gas (Amu Darya and the Afghan-Tajik basin) and copper investments (e.g., Aynak).

20. **Extractive industry skills matchmaking:** The NRRCP Secretariat will coordinate among the higher education institutions along the first segments of the resource corridor (such as Kabul University and Balkh University), TVETs in the same areas, and private sector investors, to match demand and supply of skills, for example, through funding career service officers and job fairs. To the fullest extent, this will leverage other donor programs, such as the World Bank funded Afghanistan Skills Development Project (ASDP I and II); and education and workforce development projects funded by GIZ, AusAID, DFID, USAID and other development partners.

Component (iii) **Environmental and social dimension ($6m)**

21. **Land title clearance along resource corridor:** The NRRCP Secretariat will work with the Afghanistan Land Authority (ARAZI), to begin the process of “clearing” title to land along the key resource corridor segments. “Clearance” refers to the surveying of land, establishing the legal status of such lands, identifying and validating existing land rights and claims, and resolving any disputes over land through a consultative process with the land-using communities involved.

22. **Community Development Agreement (CDA) implementation:** The Ministry of Mines will implement the concept of ‘community development agreements’ which supports two main goals: to improve relationships among all stakeholders (affected communities, investors and national and local authorities) and to promote sustainable benefits that flow to these stakeholders. CDAs have been acknowledged in the revised Mining Policy and in the proposed revisions to the Minerals Law as a means to enable local benefit sharing near extractive investments. To facilitate their implementation, the ARCP will fund technical assistance to pilot CDAs around key extractive industry sites (i.e. Amu Darya, Aynak, Hajigak).

Component (iv) **Implementation ($11m)**

23. **Strengthen PPP capability:** In order to leverage private sector investments the GoA 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 ARCP will fund the establishment of a PPP cell at the Ministry of Finance, which will coordinate among the relevant Ministries (e.g., MOCI) and Secretariats (ID Cluster, NRRCP Secretariat) to structure and implement PPP transactions, in particular those along
the resource corridor, with an early focus on the pipeline identified under Component 1 above.

24. Support CSOs for accountability and transparency: Over the next 5-10 years, the mineral sector will generate substantial revenues. The financial revenues from mining in the early 2020s are likely to range from roughly 2% of GDP – as a prudent estimate – to possibly 4% of GDP, depending on the scale of new deposits and the pace of their development. Given the importance of this revenue stream for fiscal sustainability and development, the governance of minerals revenues will be crucial component to the success of the resource corridor approach. Together with initiatives by other donors (including DFID and AusAID), the SDNRP II project is already strengthening MoM capacity for contract monitoring and enforcement, as well as supporting Afghanistan's entry into the Extractive Industry Transparency Initiative (EITI). The ARCP will complement these projects, and further strengthen the governance of mineral revenues, by strengthening the capacity of civil society to monitor revenues and contract compliance. It will do so through a sustained program of in-depth training, to enable key civil society organizations to engage at a technical level and in a constructive dialog with the GoA, mining investors, and the international community.

25. Infrastructure Development (ID) Cluster Secretariat: The Infrastructure Development (ID) Cluster Secretariat, as recently proposed to the Cabinet, will be responsible for overall coordination, supervision, planning, monitoring and reporting of all the NPPs under the ID Cluster. The Secretariat will report to the ID-Cluster Coordination Committee, which will be chaired by the lead Minister for the ID cluster, currently the Minister of Public Works. As noted, the ID Cluster Secretariat will be responsible for implementing the first component of ARCP.

26. NRRCP Cluster Secretariat: The NRRCP Secretariat is currently being funded under the SDNRP II project, through which it has built up significant technical capacity. The costs of the Secretariat will be reallocated to the ARCP, while at the same time the Secretariat will be mainstreamed within the MoM, by gradually shifting onto the Tashkeel, under the CBR. The Secretariat will also require on-demand highly technical expertise, both on the “soft” infrastructure activities it will oversee, and on the “hard” infrastructure aspects of extractive industry contract negotiations and monitoring.

27. Communications: The project and the resource corridor program overall will require vigorous communications, to ensure sustained and enhanced stakeholder buy-in, among the government, the public, and development partners. The NRRCP Secretariat, in conjunction with the ID Cluster Secretariat, will therefore need to conduct an active communications program, through stakeholder dialog across the project components and through outreach activities, both in the early stages and as results are delivered.

IV. Safeguard Policies that might apply

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Safety of Dams OP/BP 4.37  ×
Projects on International Waterways OP/BP 7.50  ×
Projects in Disputed Areas OP/BP 7.60  ×

V. Financing (in USD Million)

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VI. Contact point

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