



**Private Sector Development
Executive Summary
March 2013**

Over \$800 million of priority goods and services needed to develop the Aynak copper mine and the Amu Darya oil blocks (about 27 percent of total development costs) could potentially be procured from the Afghan suppliers assessed during this study. In addition, these local firms could provide about \$151 million worth of operational goods and services (about 22 percent of the total).

	Aynak	Amu Darya	Total
<i>Total CAPEX</i>	2,450	675	3,125
Cat. 1	390	130	520
Cat 2	180	130	310
Local CAPEX	570	260	830
<i>Total OPEX</i>	550	150	700
Cat. 1	60	50	110
Cat. 2	35	6	41
Local OPEX	95	56	151

Among goods and services identified as priority categories, about \$520 million of capital expenditures and about \$110 million of operational items are within or very close to the existing capabilities of the Afghan private sector (category 1). The most capable firms may be able to supply another \$310 million worth of CAPEX and \$41 million of OPEX within 1-2 years (category 2).

Many local companies are keen to work in mining, but larger, well-connected businesses are more likely to invest in mining procurement. The companies assessed for this study include providers of raw material for construction, manufacturers and service providers. Local procurement faces several challenges, however:

Quality and availability of goods and services. Manufacturing is embryonic in Afghanistan, and most consumables, construction material and equipment are imported. Those manufactured or assembled in Afghanistan heavily rely on imports, raising questions about local content. Most goods and services currently available from Afghan companies could not be supplied in adequate quantity and quality for the Aynak and Amu Darya projects. In addition, local suppliers are ill equipped to

rise to the challenge offered by the development of extractive industries, due to a lack of operational and technical information, weak management skills, and a scarcity of extractive expertise. That both the Aynak and Amu Darya projects are located in remote and rural areas where local communities capabilities and infrastructure are very limited constitutes an additional obstacle to procurement.

Uncertain revenues. Insufficient information and some uncertainty about the two projects also make it difficult for local companies to assess potential revenues. This is an added complication in an environment where accessing finance is already difficult, due to collateral requirements, limited risk management tools and high capital costs. Most companies are unable to borrow and unwilling to give out equity stakes, and tend to have a short-term outlook.

Information does not flow directly from the Aynak and Amu Darya project sponsors to the Afghan private sector, making it difficult for local companies to assess opportunities. Language barriers and mistrust further impede information flows.

Existing procurement arrangements could discourage Afghan firms from getting involved in the projects. The government is seen as the main vehicle to obtain contracts in extractive industries, and private companies not connected to the authorities are wary of corruption and nepotism. In addition, the Watan Group's connection to the foreign investor sponsoring the Amu Darya project and to the government could prevent other companies from getting involved. The Group is able supply a range of goods and service to the project. Lastly, initiatives focusing on developing local procurement are not coordinated.

Political and economic risks are challenging, due to the withdrawal of foreign forces in 2014, poor security, archeological works near Aynak, as well as uncertainty about the future of existing mining contracts and CSR requirements from foreign investors.

Financial and technical support is therefore needed if local companies are to fully capture the opportunities offered by the Aynak and Amu Darya projects. The suggested support program would focus on local businesses that are already viable, well established and with strong management. It would require an active participation from multilateral and bilateral donors, the Aynak and Amu Darya sponsors (MCC and CNPCI-W), the Ministry of Mines, the Afghanistan Chamber of Commerce and Industries (ACCI), investors and local businesses.

The proposed structure would involve creating a new body in charge of program implementation. The governing and coordination body would centralize all procurement needs from MCC and CNPCI-W and distribute the information to

capable suppliers through the development of a traditional and virtual marketplace. This body would also link local businesses and potential investors through conferences and communication campaigns. In addition, it would manage the skills development program provided by technical mentors from MCC and CNPCI-W and by business coaches. Lastly, it would help integrate investment plans to upgrade local supply into work plans designed for each company selected to participate in the procurement plan. The combination of mentorship and investment from funds, grants or private equity partners would result in an improvement of local production through increased capacity and better quality. At the same time, better information flow would facilitate investment and procurement. The program would be monitored and evaluated to assess effectiveness.

Implementation would follow incremental steps:

1. Prepare program coordination and secure commitment from all stakeholders
2. Create links among participants
3. Bridge information gaps surrounding procurement needs and local capabilities
4. Increase local capacities through investment and mentoring
5. Ensure sustainability through monitoring and evaluation, modification and replication