



Leveraging Large, Private-sector Investments Towards Broader Economic Growth and Diversification.

Overview

Drawing upon IDA funding and sector expertise, Afghanistan has created a competitive, transparent mining investment climate that has attracted large foreign direct investment commitment of more than \$8 billion (2010-2012) across a portfolio of oil & gas, copper, iron ore, and gold

Challenge

With this development comes increased pressure for *inclusive growth* around (a) improved award of contracts & licenses; (b) more transparent, non-discretionary regulatory monitoring and compliance; and (c) ensuring benefits at the community level with improved environmental / social performance. Moreover, there is emerging pressure for an integration of public and private investment plans; together with coordination and sequencing of these investments in order to offer private sector solutions towards employment, infrastructure development, economic growth and diversification.

These investments create opportunity for private sector solutions around infrastructure gaps and reinforcing of public sector investments. It is important for the government to (a) continue to adopt and implement global good standards around licensing, monitoring and environmental / social safeguards, (b) continue support of broader efforts around transparency (EITI), competitive award of contracts and leases (tenders), and (c) improve land acquisition, resettlement and consultation while ensuring that communities benefit from resource extraction.

Communication remains a challenge for government, donors and investors alike. A high-profile media focus on the resource curse, proper treatment of Mes Aynak antiquities, and the need for inclusive growth (community engagement / benefits sharing / resettlement) requires a more effective communication strategy. In this regard, the Extractive Industries Transparency Initiative (EITI) is offering a more transparent environment for a multi-stakeholder group to

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5,000

jobs created on the Anyak Mine

\$250
million

million in revenue collection expected

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report out on sector issues and serve as a barometer of the ability of the government to work collaboratively on key issues.

Approach

The World Bank team has led in assisting the government on policy dialogue around sector development, working over a sustained nine year period in which core team members have an average of six years of contribution. Through the Bank's Sustainable Oil, Gas and Mining Policy Division the team has assisted the government on issues along the extractive industries value chain using an incremental funding approach. Adapting to changing political economy and capitalizing on reformers that have emerged in the government, the team has been able to promote sustainable development of the minerals sector. The Country Management Unit (CMU) has provided strong support reinforcing the team on complex issues and, most importantly, bringing into the dialogue other teams having complementary activities. This team / CMU partnership has been evident to other donors who have aligned their efforts to improve overall coordination. The CMU's support of the team's proposal to create a specialized multi-disciplinary "resource corridor" team is evidence of an innovative approach by the Bank in country, and an action that is being widely watched by other teams working on resource development globally.

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Results

Hydrocarbons: three blocks of the Amu Darya basin – have been awarded to CNPC IW, with production from a known well to begin 2012

Copper: Aynak awarded to MJAM (MCC), with three other copper / gold deposits, including Aynak North, being tendered in 2012

Iron ore: Hajigak under final negotiation with two selected bidders and tender of related Sya Dara will commence 2012; and

Gold: Dushi was awarded in 2011 to a consortium of private investors – now in production. The Aynak operation is forecast to provide \$250-\$300 million per year in direct taxes and royalties, and the creation of 5,000 jobs. The challenge ahead is to integrate and leverage these investments towards the broader development agenda.

On governance the Bank has supported Sector and Sub-sector Policy Frameworks, including environmental / social management and protection of cultural property. Capacity has been built around the monitoring and regulating of mining operations, and consultative frameworks for improved community participation and benefits sharing. Assistance has been given to improved land acquisition processes, a systemic problem for which the mining sector has the profile necessary to facilitate reforms in alignment with Bank safeguards. The Resource Corridor approach has resulted in a dedicated multi-sector team, led by FPD, assisting the government on infrastructure, employment, community consultation and benefits sharing, growth and diversification agendas around natural resource development. On sector development Bank assistance has resulted in the tendering of two world class deposits, with \$7 billion investment commitments into Afghanistan. The competitive, transparent tender methodology developed as led to a concurrent tendering of an additional six more assets by DoD and two more properties under SDNRP 2 in 2012. Lastly, the Extractive Industries Transparency Initiative is preparing its first reconciliation report.

Voices

“The project has led to more consultative processes and inclusive growth, respect for land rights through improved acquisition and resettlement processes, and preparatory steps towards local procurement and skills development .”

Bank Contribution

IDA has been used to fund incremental assistance USD30 million (2006), USD10 million (2010), and USD52 million (2011).

Partners

Collaborative partnerships has been developed with the U.S. Agency for International Development, the U.S. Department of Defense, The U.K.'s Department for International Development, and Australia's AusAID within the mining sector, principally around building good governance and transparent and competitive tenders. The Asian Development Bank has been further instrumental in developing.

Toward the Future

The Ministry of Mines, through the Geological Survey of Afghanistan, will continue sector promotion and transparent tenders using the methodologies developed. Frameworks and processes for environmental / social performance are being propagated beyond the project to application across the sector. UNESCO is being engaged to ensure sustainability of attention to cultural property issues. And civil society is engaged through the Extractive Industry Transparency Initiative EITI multi-stakeholder group.

Challenges remain -- it will take more time to ensure strong and sustained capacity to regulate and monitor world class oil, gas and mining operations. Secondly, these developments will require major investments into infrastructure such as roads, water and power and greater investments into railways and pipelines. Third, it will be important to foster and catalyze "resource corridors", a World Bank approach to leverage private sector investments towards the broader growth and diversification agenda – and thus reinforcing public investments that are drawing down. Resource corridors will ensure inclusive