



The World Bank

Afghanistan Gas Project (AGASP) (P172109)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 30-Sep-2019 | Report No: PIDA27729



BASIC INFORMATION

A. Basic Project Data

Country Afghanistan	Project ID P172109	Project Name Afghanistan Gas Project (AGASP)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 30-Sep-2019	Estimated Board Date 13-Nov-2019	Practice Area (Lead) Energy & Extractives
Financing Instrument Investment Project Financing	Borrower(s) Islamic Republic of Afghanistan	Implementing Agency Ministry of Mines and Petroluem	

Proposed Development Objective(s)

The PDO is to facilitate a sustainable supply of gas through targeted investments in gas infrastructure and enhanced gas sector governance .

Components

Component A: Sustaining Gas Supply

Component B: Strengthening Gas Sector Governance

Component C: Project Management

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	52.50
Total Financing	52.50
of which IBRD/IDA	52.50
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	52.50
IDA Grant	52.50



Environmental and Social Risk Classification

Substantial

Decision

The World Bank task team for AGASP was authorized to appraise the project on September 24, 2019. Negotiations are scheduled to take place on October 7, 2019.

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, education, and health services. Macroeconomic management remains strong, government revenues have grown rapidly since 2014, and the government has engaged in an impressive range of business environment and public financial management reforms.
2. However, some gains are now eroding, and risks are rapidly rising. Economic growth has slowed substantially with a significant reduction in international troop numbers and increased insecurity since 2014. Civilian casualties remain at unprecedented levels: 10,459 killed or wounded in 2017 and 10,993 in 2018. While UNAMA reported a 27-percent decrease in casualties in the first half of 2019 compared to the same period in 2018, violence has picked up afterward, especially in August and September. Various efforts towards a political settlement with the Taliban have been ongoing throughout 2019, but the probability of significant improvements in the security situation in the short-run seems low.
3. Afghanistan faced severe economic headwinds in 2018, with the economy growing by an estimated 1.8 percent. Two main factors drove the slow growth. Firstly, severe drought had a strong negative impact on agricultural production. Secondly, business and investor confidence deteriorated significantly in the context of elevated uncertainty around: i) the level and duration of international security assistance; ii) prospects of continued or worsening election-related violence (civilian deaths reached their highest level since 2001); and iii) prospects of a peace settlement.
4. Real GDP growth is expected to have accelerated during the first half of 2019, mainly driven by the easing of drought conditions and improved agricultural production. Growth is expected to accelerate further through 2021, assuming a smooth political transition after the 2019 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.
5. The poverty rate in Afghanistan has increased markedly from 38 percent in 2011/12 to 55 percent in 2016/17. It is estimated to have grown and deepened since then. The drought negatively impacted the livelihoods of many of the 82 percent of the poor living in rural areas. Drought-induced displacement reached record levels of 298,582 individuals, mainly to urban areas in adjacent provinces. Poverty 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.



6. For the longer term, growth prospects are predicated on improvements in security, steady progress with reforms, 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

B. Sectoral and Institutional Context

7. In the absence of accelerated reform and an improved security situation, growth in Afghanistan is likely to remain slow with limited progress in reducing poverty from the currently high levels. Reforms are required immediately to both improve general investment confidence and mobilize existing economic potential. Aside from agriculture, extractives and energy are the only areas that harbor significant economic growth potential for Afghanistan.¹
8. Accelerated development of gas and downstream power sectors is needed for the following reasons: (i) by diversifying sources of electricity supply, more Afghans can be provided with access to the electric grid. This will enable Afghans to lift themselves out of poverty, by allowing them to engage in more productive uses; (ii) diversifying electricity sources will also provide for more stable supply for those who already have access to the electric grid; (iii) increasing the supply of gas-fired power will help technically stabilize the electricity grid as the Government is advancing a 2,000 MW solar energy program (compared to 522 MW domestic power currently installed) as part of a wider green growth agenda; and importantly (iv) over the next 15 years, extractives is the only sector that has the potential to generate exports and revenues at scale, and is able to generate foreign exchange thus providing for greater fiscal stability.²
9. It is well recognized that gas power plants by independent power producers (IPPs) with medium to long-term power purchase agreements (PPAs) can serve as an anchor for gas sector development. IPPs also serve as an effective on-the-job capacity building opportunity in support of the expansion of gas-based power generation. However, Afghanistan has yet to demonstrate a fully integrated “proof of concept” investment to develop and deliver natural gas. Against this background, the Government of Afghanistan has requested the World Bank Group’s support on a dedicated gas-to-power development program, which includes three inter-related initiatives aimed at jump-starting the extractives sector through a combined push-pull strategy.
10. The “push” for the development of the gas sector is provided for by a targeted project helping develop specific gas supply infrastructure and improve the governance of the gas sector, the proposed Afghanistan Gas Project (AGASP, P172109) is a USD52.50 million (SDR equivalent) IDA grant to the Government of Afghanistan. Simply put, this project ensures that enough gas can be supplied to the IPPs discussed below. The “pull” is being provided by two small-size gas-fired power plants which will create the cornerstone market for the gas: (i) a 40 MW gas-fired independent power producer (IPP) at Sheberghan to operate in the short term and sited near the existing gas fields (the Sheberghan Gas-to-Power Project, P166405); and (ii) a 58.6 MW gas-fired IPP to operate over a 20 year timeframe located at Mazar-e-Sharif (the Mazar-e-Sharif Gas-to-Power Project, P157827).

¹ World Bank Group. Afghanistan Development Update. Building Confidence Amid Uncertainty, July 2019.

² Extractives in Afghanistan will only reach maturity over time, but important impacts may be felt early. If properly leveraged through reforms and public investment, extractives offer a powerful instrument to maximize growth impact on livelihoods.



11. The development of Afghanistan's hydrocarbon resources has been identified as a critical link for long-term energy security and diversification of fuel supply, economic diversification, growth and stability for the country. Over the short-term, indigenous gas resources offer opportunities for increased energy access and energy security, and create 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 and, eventually, through exports to neighboring markets.
12. Since 2002, the Ministry of Mines and Petroleum (MoMP) has been strengthening the enabling environment for private/commercial sector investments, targeting further development of currently producing and discovered fields in northern Afghanistan and exploration of untapped potential in other prospective basins. Internationally competitive hydrocarbon tender rounds have confirmed investor interest, but unaddressed impediments to investment across the gas value-chain remain an obstacle to continued sector development.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The PDO is to facilitate a sustainable supply of gas through targeted investments in gas infrastructure and enhanced gas sector governance .

Key Results

- a) Increased capacity to deliver commercial-quality³ natural gas through to off-takers in Sheberghan and Mazar; and
- b) Improved institutional, regulatory and contractual framework for gas sector management and oversight.

D. Project Description

13. The project contemplates three components: Component A – Sustaining Gas Supply; Component B - Strengthening Gas Sector Governance; and Component C - Project Management. A summary of each of the components is provided below.

COMPONENT A: SUSTAINING GAS SUPPLY

14. The objective of Component A is to support the sustained supply of commercial quality natural gas for the Sheberghan and Mazar IPPs and other current and prospective off-takers through (a) support to the construction, optimization, operations and maintenance of gas infrastructure, including the Sheberghan-Mazar pipeline (SMPL) and a new gas processing plant for desulfurization of increasingly sour natural gas production in the Sheberghan area fields, and (b) support to international competitive tender for the contract award of the Totimaidan gas block.

³ Commercial-quality is understood as raw natural gas that has been processed for use by end-users without further processing.



15. **Subcomponent A1. Gas Infrastructure.** (*Beneficiaries: MoMP, AGE, AOGRA*). This subcomponent will provide technical support to MoMP and Afghan Gas Enterprise (AGE) to ensure sustainable natural gas deliverability for off-takers, including the construction of SMPL, optimization and installation of upstream field facilities, and assessment of field development for Yatimtaq. Support will initially focus on facilitating compliance with contractual gas supply commitments already assumed by the government with the Sheberghan and Mazar IPPs.
16. **Subcomponent A2. Tendering Totimaidan Gas Block.** (*Beneficiaries: MoMP, AGE, AOGRA*). This sub-component will not finance upstream field development. The objective of the activities under this sub-component is to support the MoMP and the Afghan Oil and Gas Regulatory Authority (AOGRA) prepare and implement an international competitive tender and a contract award for the development of the Totimaidan gas block. This sub-component will finance technical, legal, financial, environmental and social expertise and training for the preparation and implementation of the international tender and monitoring of contractual and regulatory compliance (including environmental and social aspects) of the Totimaidan gas block.

COMPONENT B: STRENGTHENING GAS SECTOR GOVERNANCE

17. The objective of this component is to address institutional capacity gaps that persist in the management of Afghanistan's hydrocarbon resources - ensuring predictability, transparency and effectiveness. Emphasis will be given to the MoMP's central functions as established in the Hydrocarbons Law (2018) and the Government's sector roadmap (2018), as well as to the establishment and operationalization of AOGRA. Geographic focus will include MoMP's and AOGRA's central offices in Kabul and, where relevant to the task at hand, field offices responsible for regulatory oversight and inspection, including compliance with occupational health, safety and environmental requirements.
18. **Subcomponent B1. MoMP: Strengthening capacity to manage the gas sector.** (*Beneficiaries MoMP*). Building on previous support provided to the MoMP, the objective of this sub-component is to strengthen institutional capacity of the Ministry to discharge its functions and responsibilities related to the development of sector policy, sector strategies to achieve short- to medium term objectives, sector oversight, development of model contracts and regulations, assessment of contractual terms and conditions, financial modeling, investment promotion, and inter-institutional coordination, particularly with AOGRA and the Ministry of Finance.
19. **Subcomponent B2. AOGRA: Strengthening regulatory compliance and monitoring of gas sector activities.** (*Beneficiaries: MoMP, AOGRA*). Sector oversight, policy and strategic functions remain within the remit of the MoMP, whereas responsibility for regulatory and contractual compliance functions has been devolved to the newly established Afghan Oil and Gas Regulatory Authority (AOGRA). This subcomponent will strengthen AOGRA's capacity to discharge its functions and responsibilities as set out in the new Hydrocarbons Law.

COMPONENT C: PROJECT MANAGEMENT

20. This component will provide support at implementation to undertake project management, in accordance with the World Bank's fiduciary and other guidelines, including financing incremental operating costs, equipment, training on fiduciary and project management issues, project audits, and engagement of technical advisers to provide technical expertise on project performance monitoring and planning. This component will also finance the cost of recruiting a project management support firm to support the MoMP in the effective management and implementation of the project, as well as costs associated with 'project implementation staff'.



Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

Environmental Risk Rating Substantial

21. **Potential Risks and Impacts.** Based on the appraisal stage assessment of the project, the overall environmental classification for AGASP is determined to be “Substantial” at this stage.
22. AGASP will finance investment activities and civil works (i.e. construction of the new Mazar-Sheberghan Gas-Pipeline, optimization of the existing amine plant), which will be further reinforced by technical assistance activities. The activities supported by the project will by itself have limited environmental and Occupational Health and Safety (OHS) impacts. However, the subsequent technical assistance (TA) downstream outcomes of the project may, if at a later stage implemented by the Recipient, have important environmental and OHS implications. This would be the case whenever and wherever the future extractive activities are implemented, such as the development of the Totimaidan gas field by a private investor/operator, there could potentially be significant short term adverse environmental OHS impacts and risks. The environmental risk rating of substantial is based on the following:

- The newly planned Sheberghan to Mazar gas pipeline and the new amine plant are expected to cause construction and operation stage environmental impacts, safety and OHS risks. Also, safety concerns for the workers and local communities (during implementation and operation) would be a challenge for this project but can be managed if environmental, social and OHS supervision by trained staff is adequate and the proposed ESMP and OHS Plan are implemented.
- The MoMP has limited capacity managing environmental risks and impacts. There are some concerns over capacity and experience of MoMP, AGE and other potential operators in the sector in managing stakeholder engagement but these could be readily addressed through implementation support.
- The current OHS Management Regulation, its implementation as well as the awareness and culture of OHS are generally very weak among the government, and the private sector.
- Other TA downstream OHS risks may include: risks associated with labor camps to be established by contractors and other potential operators , including the transmission of communicable and sexually transmitted diseases such as HIV/AIDS; the lack of hygiene and sanitation; the spread of microbial contamination; and poisoning due to exposure to chemicals and other hazardous wastes.

Social Risk Rating Substantial

23. Considering the social assessment, the overall Social Risk Rating is “Substantial” for AGASP at this stage, in view of the TA downstream risks posed by the downstream social implications that may arise when and if the TA leads to future gas production activities implemented by the Government. Key factors considered are the



following:

- Construction of the new Sheberghan – Mazar gas pipeline expected to involve minimal land acquisition impacts associated, while the social impacts of the TA downstream activities are unknown at this stage. The activities for development of the Yatimtaq Gas field and Totimaidan Gas Block may involve some land acquisition impacts. The required land can be obtained through land lease method, as the proposed facilities are most likely to be located on government owned land.
- The TA activities downstream of the project may cause risks associated with influx of Labor, labor management issues and Gender-Based Violence (GBV). The gas activities are likely to involve some limited number of laborers from outside the project's area of influence.
- In addition, weak capacity of the implementing agency to manage social issues remains a key challenge but these could be readily addressed through implementation support. In particular, the lengthy process for land acquisition and compensation to the project-affected families is a key concern among local communities.
- Apart from this, this Project has a high profile and has the potential to garner considerable media attention. Security concerns are real, as some of the project sites are in conflict zones which are under insurgents' influence. There are some concerns over capacity and experience of MoMP, AGE and the other potential operators in managing stakeholder engagement but these could be readily addressed through implementation support.

E. Implementation

Institutional and Implementation Arrangements

24. **Ministry of Mines and Petroleum.** The project will be managed by the MoMP, which will be responsible for the overall coordination and implementation of the project, including retaining full fiduciary responsibility and oversight (procurement, FM, M&E, etc) for support provided to other beneficiaries such as AGE and AOGRA. The MoMP will be responsible for the drafting of annual work programs and budgets of the project, procurement, financing management, social and environmental safeguards (where relevant), and monitoring and evaluation of the project's progress; and where relevant, they will coordinate closely with other beneficiary agencies (i.e. AGE and AOGRA) on these activities. The MoMP will provide updates and inputs to progress implementation reports for the project, which will be finalized by the beneficiary agencies on a quarterly basis in a format and content acceptable by the Bank.
25. **Project Management Support Firm (PMSF).** Embedded within the MoMP will be a project management support firm, which will be staffed by project management professionals to help support and build capacity within the Ministry on project management. The PMSF will be housed within the MoMP and will be responsible for building the capacity of Ministry staff to coordinate activities related to fiduciary (procurement and financial management) and safeguard compliance, M&E including setting up an M&E system, instituting a quality assurance and quality control program for the project, and ensuring that the project is implemented in accordance with project plans and budgets. This firm will be procured on a competitive basis and key staff are expected to be experienced project managers. Dedicated fiduciary, procurement, safeguards staff from the MoMP will be appointed to work with the PMSF on a full-time basis. The PMSF will report directly to the DM responsible for overseeing project implementation.
26. **AGE and AOGRA Project Implementation Teams (PITs).** Given the scope of support to other beneficiary organizations (including AGE and AOGRA) under this proposed project, each organization is expected to



establish a small dedicated PIT. The PIT will be responsible for overseeing all technical aspects of project implementation related to respective activities. A focal point or team lead should be appointed within each of these organizations to lead the PIT and is expected to work in close collaboration with the implementation and project management structure set up under the MoMP to ensure efficiency of the procurement process. Fiduciary responsibility for activities implemented within each of these organizations will rest with the MoMP.

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**APPROVAL**

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