Why a Resource Corridor Strategy in Afghanistan? Purpose

Progress has come to Afghanistan through one of the highest levels of development assistance in the world. Since 2001, external aid has been driving the economy of the country and has been roughly equivalent to the same dollar amount as the country’s total GDP. Afghanistan is entering a period of transition as these levels of aid will not be sustained after 2014. The country will have to find new sources of growth to ensure a successful transition. The natural resources sector – mining and hydrocarbons - offers a window of opportunity around which a more comprehensive and socially inclusive framework- can be developed: that of the Resource Corridors.

What is a Resource Corridor? Concept

A Resource Corridor is a means to develop infrastructure and services around the area of a large mine or oilfield while using these for other economic activities that will promote growth.

What are the advantages of a Resource Corridor as opposed to simply a Resource sector (e.g: extractives)?

In reality, the extractive industry is rarely transformative on its own. Investments in Afghanistan will only reach maturity over the long term even though some impact may be felt early. Even then, the resource sector itself will be large but not transformative: by the 2020s, it may create some 10-20,000 direct jobs which are a modest number considering that some 300,000-400,000 people are expected to enter the Afghan workforce each year. The mining revenues will not be sufficient to compensate for anticipated decline in aid. The Resource Corridor notion leverages the resource sector because it seeks to multiply job creation in the supply chain, downstream and in related industries by:

- seeking public and private sector synergies to prioritize investments and actions and,
- sequencing and combining hard and soft infrastructure (i) to maximize impacts.
Which ones are the segments for development? Geographical

In the short and medium term, interventions will focus on four geographical segments anchored around:

1. Hydrocarbons in the North
2. Aynak, the Ishpurhta coal fields and the Qara Zaghan gold deposit in the East
3. The Salang Tunnel - Cross Hindu Kush
4. Around Hajigak and the Dar-i-Suf coal fields / Energy and steel

In the long term, three additional extensions can be feasible:
Extending the eastern copper segment southwards
Extending the northern segment to Herat
Extending the energy and steel link southeast from Hajigak

What are the areas of Interventions over the next decade: physical and social /hard and soft

A. Infrastructure

Build or rehabilitate about 1,300km of road links. This will require $1.35 billion over 10 years, of which $750 million is already funded.
Organize effective maintenance of priority roads. Funding is available through donor funds as well as the initiation of a fuel levy. The Road Authority is being established but needs further development to be fully effective

Ensure more secure energy supply to Kabul by harnessing Aynak’s and Hajigak’s electricity needs to improve the public grid.
Develop commercially viable rail links northwards along (i) Mazar-i-Sharif to Andkhoy, (ii) Herat to the Iranian railway system and (iii) Hajigak to the potential coking fields of Dar-i-Suf, and onwards to Mazar-i-Sharif. This should include multimodal railway terminals and an emphasis on safety regulation.
B. Livelihoods

**Mining Value Chain** - The number of indirect jobs—those in the supply chain—created by large mines range from 1.5 to 3 times direct employment. This means the resource sector in Afghanistan could potentially generate 45-60,000 jobs, if the opportunity is captured. The resource sector could source from the domestic private sector goods and services that are (i) already available and competitive, and (ii) that could become available once adequate support has been provided. Without access to better information, the domestic private sector may not be able to capture the first opportunity. A public private mechanism to disseminate mining companies’ needs, including technical specifications, and credible prices and standards from suppliers to mining companies is then a must. More business and technical support, as well as facilitating access to finance and risk sharing will have to be developed to upgrade other domestic capabilities. A pilot program would be launched for the Aynak and Amu Darya projects, before being rolled out across the sector. Parallel efforts to match the many skills development programs to private sector needs will also be necessary.

**Agriculture and agribusiness**. The best opportunity for the corridor to generate inclusive growth lies with agriculture as the Resource corridor approach complements the geographically surrounding agriculture and agribusiness sector. Whereas a very detailed sector review is being undertaken to understand the constraints of agriculture and agribusiness it must be noted that the very same infrastructure that mines require—access to electricity, roads, water and so on, is also needed for agricultural productivity, agro-processing and to reach markets.

**Downstream development**. The potential steel mill connected to the Hajigak development offers the largest potential source of job creation—together with the mine and ancillary services—and development opportunities, thanks to operating needs, the processing of by-products and the use of higher quality steel products. This would require a public investment in the construction of a rail connection between Dar-i-Suf and Mazar-i-Sharif as well as the completion of the rail links to Central Asian countries. In addition, feasibility studies are underway for a private facility to refine Amu Darya’s oil.

C. Environmental and Social Impact

**Water** - Without due care there is a significant risk that the Aynak project will further deplete Kabul’s already strained water resources. However, there is a clear opportunity for a robust and win-win approach having the mine cross subsidize the city’s water supply. While the aquifer under Kabul cannot supply its needs, the upper and middle Logar aquifers might be sufficient to supply the city, irrigate the area, and satisfy Aynak. If security stabilizes, allowing smooth access to those aquifers, it is very likely they will be sufficient for several years, considering Kabul city grows at a normal pace. The construction of a dam, at one of two nearby sites, would remove this risk, but requires $300-500m investment over 5-10 years. The investment, however, would only be viable if Aynak is integrated into the water system and can shoulder high water-use charges.

**Land** - Developing the infrastructure for a resource corridor will require substantial land acquisition. Legal reform, investments in land verification, and building the government’s implementation capacity to manage land acquisition are prerequisites to the development of the corridor’s infrastructure and should begin as soon as possible.

**Community benefits sharing** - To ensure that local communities benefit from the development of mines and other infrastructure, license agreements already require investors to provide benefits such as schools and clinics. Community Development Agreements (CDAs) negotiated between investors and communities should be central to optimize community benefits sharing. CDAs clarify roles and allow communities themselves to set priorities for the utilization of revenues provided to the communities by the investments.
D. Governance

**Strengthening capacity** at all levels, particularly in planning and in the ability to develop open and transparent communication among multiple stakeholders.

**Continuing to build a transparent and strong budget process** that also addresses the perceived balance of central and provincial shares of revenues

**Strong contract monitoring**, particularly on volume and transfer pricing, to avoid leakage and ensure that revenues reach the budget. Both the Ministry of Mines and civil society have a role to play but need capacity building.

**Afghanistan Resource Corridor: Principles**

To leverage the potential development, the Resource Corridor approach considers the following principles:

- **Sequencing matters**: in particular for incremental public investments, complementing the private investments. The strategy attempts to sequence actions so as to maximize expected overall economic value, in the face of uncertainty.
- **Risks**: they must be acknowledged. These include delays in mining investments; corruption and poor governance; deteriorating security; and government capacity. As a result of them and prevailing uncertainty, short-term investments and actions must be feasible on their own merits.
- **Expectations**: they must be managed. Short-term results will be real but modest, while most impact will be felt in the second half of the transformation decade.
- **It is a long term effort**: government, the private sector, and development partners have to stay the course.

(i) "Hard" refers to physical infrastructure, such as roads, rail and power, and the operational systems required for it to operate. "Soft" refers to social infrastructure, such as organizations for collective action, firm capabilities, skills, health services, cultural preservation, and so forth.

**More Information**

Please refer to the complete Resource Corridor Strategy and more at [http://www.artf.af/research](http://www.artf.af/research) or access the strategy full report by clicking on the following links:


