Public Disclosure Authorized

Public Disclosure Authorized

Report Number : ICRR0021164

1. Project Data

Project ID	Project Name
P118925	Afghanistan SDNRP II
Country	**Practice Area(Lead)**
Afghanistan	Energy & Extractives

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-H6990	30-Jun-2016	52,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
31-May-2011	30-Mar-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	52,000,000.00	0.00
Revised Commitment	40,012,371.74	0.00
Actual	35,779,148.11	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Ranga Rajan Krishnamani	John R. Eriksson	Christopher David Nelson	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) as stated in the Financing Agreement (Schedule 1, page 4) and in the Emergency Project Paper (page 4) was:
"To assist the Ministry of Mines (MoM) and the National Environmental Protection Agency (NEPA) in further improving their capacities to effectively regulate Afghanistan's mineral resource development in a transparent and efficient manner and foster private sector development".

b. Were the project objectives/key associated outcome targets revised during implementation?
Yes

Did the Board approve the revised objectives/key associated outcome targets?
No

c. Will a split evaluation be undertaken?
No

d. Components

There were four components (Emergency Project Paper, pages i-ii and pages 21-32).

One. Award of Contracts and Licenses. *Appraisal estimate US$12.40 million. Actual cost US$6.30 million*. This component financed technical assistance activities aimed at managing competitive bidding procedures for extractive industries. Activities included: (i) developing policy frameworks and resource corridor assessments for artisanal and small-scale mining, decorative stones and quarry development and developing sector development policy (including through Public-Private Partnerships (PPPs) schemes for infrastructure development): (ii) establishing a Secretariat of the Inter-Ministerial Committee (IMC) for processing tenders: and, (iii) providing support to the Afghanistan Geological Survey (AGS) for creating a modernized computerized geo-database.

Two. Regulation and Monitoring of Operations. *Appraisal estimate US$22.00 million. Actual cost US$13.10 million*. This component aimed at developing regulatory frameworks for the mining and hydrocarbon sectors and capacity building of the Ministry of Mines (MOM) and the National Environmental Protection Agency (NEPA) for monitoring regulatory compliance. Activities included: (i) modernizing the mining cadaster and training staff: (ii) implementing an Inspection and Contract Compliance Regime for enforcing mining-related activities, training officers in Kabul and decentralized offices, strengthening contractual compliance monitoring (including for the ongoing activities in the Aynak copper mine and Hajigak iron ore mine) and developing a national directive for using explosives: (iii) establishing a MOM for providing technical education and training: (iii) improving the business environment, preparing corporatization plans for state minerals enterprises and the first phase reform of gas, fertilizer and minerals extraction enterprises: (iv) support for implementing the Extractive Industries Transparency Initiative (EITI): (The EITI is a global standard for good governance of oil, gas and mineral resources): (v) developing a policy framework for mining sector revenue management.

Three. Preservation of Aynak Antiquities and Support for Alternative Livelihoods through Sustainable Artisanal and Small-Scale Mining (ASM). *Appraisal estimate US$7.60 million. Actual cost US$11.60 million*. This component aimed at recovering and preserving the cultural resources of the Aynak valley. Activities included: (i) supporting the implementation of the Archeological Recovery and Preservation Plan: (ii) promoting alternative livelihoods, such as employment of women in the gemstone, decorative stones, and jewelry craft fields, and reproducing artifacts at Mes (copper) Aynak: and, (iii) developing a gemstone center, training women gemstone cutters, polishers and jewelry makers and training ASM miners, cooperatives and communities.

Four. Project Implementation Support. *Appraisal estimate US$10.00 million. Actual cost US$9.00 million*. Activities aimed at providing support to the Project Management Unit (PMU) in project implementation, particularly in the areas of Monitoring and Evaluation (M&E), complying with fiduciary and safeguard requirements, public information disclosure and regulated public consultation processes.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost. Appraisal estimate US$52.00 million. A total of US$12.00 million was cancelled (discussed below) With this the revised estimate was US$40.00 million. According to the ICR (page 48), actual cost US$40.00 million. It is not clear how the actual cost could have been US$40.00 million, unless an additional US$4.22 million had been cancelled, given that the only source of financing for the project was the IDA grant (discussed below).

Project financing. The project was financed by an IDA grant of US$52.00 million. US$9.00 million and US$3.00 million were cancelled following the two Level 2 restructurings (discussed below). With this the revised grant estimate was US$40.00 million. Amount disbursed at closure US$35.78 million. Unless US$4.22 million of the IDA grant was cancelled before project closing, the amount disbursed was about 89% of the grant.

There was parallel financing for regulatory support activities to the Afghan Geological Survey from the United States and British Geological Survey, feasibility studies for railroads from the Asian Development Bank (ADB), developing sector policy frameworks and transport corridor assessments from the Australian Agency for International Development (AusAID) and the United Kingdom Department of International Development (DFID) and from the United Nations Educational, Scientific and Cultural Organization (UNESCO) for activities associated with raising awareness both within Afghanistan and globally about the importance of archeological preservation using Aynak as a case study.

Borrower contribution. None was planned. There was no contribution from the borrower during project implementation.

Dates. There were two Level 2 restructurings. The following changes were made through the first Level 2 restructuring on November 25, 2014: (i) Some activities were cancelled (such as, developing sector frameworks and transport corridor assessments), as these activities were funded by other donors: (ii) US$9.00 million of the grant was cancelled: and, (iii) US$1.00 million of the grant was reallocated for additional capacity building activities for the National Environmental Protection Agency (NEPA) for implementing the key recommendations in the Strategic Environmental and Social Assessment.

The following changes were made by the second Level 2 restructuring on June 30, 2016: (i) The project closing date was extended from June 30, 2016 to March 30, 2017 for completing ongoing activities: (ii) US$3.00 million of the grant was cancelled: (iii) there was a reallocation of funding between project components. The project closed nine months behind schedule on March 30, 2017.

Split rating. Though the indicators were revised during implementation, given that there was no material change to the PDO, a split rating was deemed to be not necessary for assessing project performance.

3. Relevance of Objectives & Design

a. Relevance of Objectives

Despite reconstruction efforts, Afghanistan remained one of the poorest countries in the world, with 36% of

the population classified as poor before appraisal. Although reported to have significant endowment of natural resources (copper, iron ore, coal, marble, gemstones, construction materials and lithium), much of the mineral wealth remained untapped, due to the lack of supporting infrastructure linking mines with global markets. While an important source of livelihood, a major part of the mineral production remained unlicensed and informally operated, with many of the smaller mining operations either not formally licensed or subject to regulatory oversight. Before appraisal, only the Aynak copper mine and the Hajigak iron ore mine had been partially inventoried and offered under competitive tendering. Sustained mining sector growth depended on an enabling environment for investors and good governance to transform mineral resource rents into lasting wealth.

The PDO was relevant to the government strategies articulated in the *Oil, Gas and Mining Sector Vision,* the *National Extractive Industries Excellence Program (NEIEP*), the *Afghanistan National Development Strategy* (ANDS, 2008) and the *Master Plan for the Extractive Industries (EI) sector*. The government's goals included, developing sector policies and legislative reform to support the growth of extractive industries, developing a regulatory environment, modernizing the Ministry of Mines, providing an enabling business environment for attracting private sector investment and updating the geological information to support sector growth. The Government's Master Plan for EI focused on diversification along the resource transport corridors that were being planned to facilitate mining sector development. The government had also endorsed the principles of the Extractive Industries Transparency Initiative (EITI) on March 16, 2009, signaling its further commitment to transparent and accountable sector governance.

The PDO continues to be well-aligned with the Bank strategy. At appraisal, the Bank's *Interim Strategy Note* (ISN) for the 2012-2014 period, authorized the use of emergency operations for projects in Afghanistan (OP/BP 8.00). The second pillar of the Strategy Note highlighted the need for "*supporting growth of a formal, modern and competitive private sector*" (ICR, page 14). The Bank's Country Partnership Framework (CPF) for the 2017-2020 acknowledged that despite having natural endowments of a wide range of minerals and hydropower, the contribution of the extractives sector to economic growth, revenue generation or creating employment remained had been limited due to governance issues. The second pillar of the CPF underscored the need for supporting inclusive growth including among other things, improving the regulatory environment for extractive industries.

Rating	Revised Rating
Substantial	Not Rated/Not Applicable

b. Relevance of Design

The PDO of this project was clear. The causal links between the project activities, outputs and outcomes were logical. Component two and three activities, such as capacity building of the government agencies, modernizing the mining cadaster, implementing EITI principles and the Archeological Recovery and Preservation Plan of the Aynak antiquities, could be expected to improve the regulatory environment for the extractives sector and thereby aid in improving the transparency and efficiency in the sector. Component One activities aimed at providing support to the Afghanistan Geological Survey for developing a computerized geo-database, developing a sector development policy for guiding the sector and PPP schemes for developing infrastructure were aimed at attracting private sector participation in the sector.

- It is not clear, whether political economy considerations were adequately considered during

preparation, given that some activities (such as re-negotiation of the Aynak contract and institutional arrangements for the Afgan Petroleum Authority) were not implemented by the government, due to their potential impact on the political economy (ICR, page 26).

- The design initially envisioned the gradual transfer of fiduciary from the Project Management Unit (PMU) to the Ministry of Mines and Petroleum. The failure to establish a firm timeline and specification of the operational modalities of the transfer contributed to procurement delays during implementation (discussed in Section 9a). The deficiency in implementation arrangements adversely impacted project implementation, effectiveness and sustainability of the project.
- The project sought to address issues of resettlement at Mes Aynak, without a corresponding technical assistance component aimed at management of land administration (ICR, page 26). This led to the resettlement issues and eventually non-compliance with involuntary resettlement safeguards at project closure.
- The project scope, which included sub-component activity associated with archeological preservation (including activities downstream of the mine site) was vague. This sub-component activity could have been designed better as a standalone activity, particularly in view of the weak implementation capacity in the country.

Rating
Modest

Revised Rating
Not Rated/Not Applicable

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To assist the Ministry of Mines (MoM) and the National Environmental Protection Agency (NEPA) in further improving their capacities to effectively regulate Afghanistan's mineral resource development in a transparent and efficient manner.

Rationale

Outputs. (ICR, pages 27-38. pages 49-55).

- Hydrocarbon data, an assessment of the existing field production data for the seven known gas fields, the mineral data for medium and large-scale mining data and the final draft of sector standards for mining were prepared, as targeted. 85% of new geodata (as a percentage to total area) was collected as per the revised target.
- 90% of licenses were digitized as compared to the target of 85%.
- Number of days to process medium scale licenses decreased from 180 at the baseline to 90 as targeted.
- 32 mine inspectors were trained. This was short of the target of 50. 30 inspectors were trained in inspecting appropriate mining techniques and environmental management as targeted.

- The new Mining Sector Development Strategy and 18 new policies were approved. A corporatization plan to assess, value and develop commercialization and corporatization options for two state owned enterprises (the Afgan gas enterprise and the Northern Coal Enterprise) were completed.
- Five validation reports for the Extractive Industries Transparency Initiative (EITI) were produced during implementation. This exceeded the target of three.
- Eight Investigation Reports for Heath, Safety and Environment (HSE) compliance at medium and large-scale mining and oil/gas operations were produced at project closure. This exceeded the target of five.
- The following Mining regulations were drafted: Mine and Health Safety: Mechanical and Electrical Engineering, Ventilation and Surveying: Coal and Fiery Mines: Licensing and Use of Explosives: and, Environmental and Social Impact Assessments.
- The archeological screening was completed in six prioritized areas. Geographic Information System (GIS) mapping was completed and updated in all the archeological areas.
- The Inter-Ministerial Council was established to focus on the technical merits of the bids, monitor the bidding process of small and medium scale mining contracts, approve the medium size mining contract and approve the royalty rate of mining operations as per Article 87 of the Mining Law.
- Protection activities started in 90% of the sites in the entire concession area. This exceeded the target of 50%.
- 16 provincial staff of the NEPA in Kabul, nine provincial staff in Heart and nine in Mazar e Sharif were trained. No targets were set for this indicator. 100 women were trained in gemstone cutting, polishing and jewelry making. 500 laborers were provided employment to support the archeological program
- Additional staff positions for the compliance office at the National Environmental Protection Agency were not filled at project closure.
- No laws (as compared to the target of six) on mining regulations were promulgated pending passage of amendment to the mining code.
- Four annual reports for contract compliance monitoring for Aynak and Hajigak were prepared and publicly disseminated as compared to the target of five.

Outcomes.
Indicators were output-oriented and there is little evidence as to the extent the outputs contributed to improving the capacities of the respective agencies to effectively regulate Afghanistan's mineral resource development in a transparent and efficient manner.

Rating
Modest

Objective 2
Objective
To foster private sector development.

Rationale

Outputs.
In addition to the indicators described above which were also relevant to this objective, the following outputs were realized.

- A total of ten tenders were submitted by leading mining companies at project closure as compared to one at the baseline and as compared to the target of four.
- The Graduate Management Training (GMT) was designed and approved by the Ministry.

Outcomes.
Indicators were output-oriented and there is little evidence as to the extent the outputs contributed to fostering private sector development.

Rating
Modest

5. Efficiency

Economic Analysis. There was no economic or financial analysis either at appraisal or at closure, given that this was a technical assistance project. The direct and indirect economic benefits were assumed to come from Foreign Direct Investment (FDI) and related know how to the local economy and society in general, strengthening alternative livelihoods through downstream activities in gemstone cutting and handicraft production and increased annual fiscal revenue from the mining sector (by way of taxes and royalties). During project preparation, it was assumed that Aynak copper production starting in 2014, would yield US$250 million in direct taxes and royalties annually. By the close of the project, Aynak had not yet moved into the production phase and the contract for the Hajigak iron ore mine had fallen through.
Administrative and Operational Issues. There were delays in procurement processing and planning due to the frequent changes in leadership and staffing problems in the Ministry. Adverse economic shocks such as worldwide fall in commodity prices during implementation and declining investment interest in mining operations (particularly in countries perceived to be high-risk), security concerns which undermined both the government's ability to attract consultants for technical assistance activities, cancellation of field operations during supervision missions and changing donor priorities in the extractives sector, did play a role during implementation. However, activities related to archeological restoration at Mes Aynak were incomplete at project closure. The backlog of payments for several key project activities was cleared only several months after project closure (due to the government's decision to withhold payments (discussed in Section 11b). The ratio of actual operating cost to total actual project cost amounted to nearly a quarter (22.5%) of the total project cost, but this was partly on account of the additional costs associated with security considerations.

Efficiency Rating
Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of the PDO to the government and the Bank strategy is rated as Substantial. Relevance of design is rated as Modest. Efficacy of the two objectives -To assist the Ministry of Mines (MoM) and the National Environmental Protection Agency (NEPA) in further improving their capacities to effectively regulate Afghanistan's mineral resource development in a transparent and efficient manner and to foster private sector development- is rated as Modest. All indicators were output-oriented and there is little evidence of the extent to which these outputs contributed to realizing the PDOs. Efficiency is rated as Modest mainly on account of the administrative and operational issues during implementation.

a. Outcome Rating

Unsatisfactory

7. Rationale for Risk to Development Outcome Rating

Institutional risk. The institutional risk is High, in view of the weak implementation capacity. This is particularly so given that at project closure there were no large-scale mining operations in Afghanistan and both Aynak and Hajigak mines were still at the feasibility stage. It remains unclear if the Ministry of Mines and Petroleum has the ability to hire and retain good staff for undertaking the activities associated with inspections, licensing and record keeping. It is also not clear if investors will seek to renegotiate contracts with lower royalty rates or lower taxes, given that contracts have been signed with high ad valorem rates, before any feasibility work had been undertaken.
Governance Risk. This risk is rated as High, given that the public release of geological data is to date restricted by the Ministry of Information and Culture. As noted in the ICR (page 41, paragraph 41), there is also the possibility that Afghanistan could be suspended from the Extractive Industries Transparency Initiative (EITI).
Security Risk. This risk is rated as High given that security risk is still high at Aynak.
Stakeholder ownership. This risk is rated as High, given that resettlement operations of this project were not complete at project closure.

a. Risk to Development Outcome Rating
High

8. Assessment of Bank Performance

a. Quality-at-Entry
This project was prepared based on the lessons from an ongoing Bank-financed project (Sustainable Development of Natural Resources Project which closed in 2013) and from the experience of mining sector technical assistance projects from other parts of the world. The key lessons incorporated at design included, activities aimed at getting better quality geological information for attracting investors, improving communications with stakeholders on environmental and safeguard related risks for local people around the large-scale mining projects and technical assistance for aligning the government's resettlement process with Bank policies. The analytical framework for the proposed technical assistance activities drew upon the Extractive Industries Value Chain (EIVC) methodology (The EIVI methodology spans the sequence of interventions that a resource dependent nation may follow for transforming mineral resource potential into lasting wealth). Several risks were identified including, security risks (over which the Bank had no control), substantial transport infrastructure bottlenecks impeding further development of large or medium scale mining projects, reputational risks to the Bank due to misinformation and underreporting and risks associated with limited capacity and governance (PAD, pages 19-20). Mitigation measures incorporated at design included, having a communications specialist in the Bank team to provide information to stakeholders, collaboration between the Bank and the Government in preparing the household census of Project Affected Persons (PAPs), establishing the Aynak Copper Mine Authority with an Ombudsman, strengthening the safeguards capacities through a senior Social Development Specialist in Kabul, addressing infrastructure issues with key donors and mitigating governance risk through support to the Extractive Industries Transparency Initiative. Even with the mitigation measures, the overall project risk was still rated as Substantial. Arrangements made at appraisal for financial management compliance were appropriate (discussed in Section 11).

- As indicated in section 3b, it is unclear whether political economy considerations were adequately considered at design, given that some activities could not be implemented by the government in view of their political economy impact. The failure to establish a firm timeline and operational modalities impacted on project implementation.
- The project aimed at addressing resettlement issues without a corresponding technical assistance engagement on land administration and management. This contributed to the resettlement issues that rose during implementation. The project scope was broad in relation to the implementation capacity.
- There were moderate shortcomings in M&E design (discussed in section 10a).

Quality-at-Entry Rating
Moderately Unsatisfactory

b. Quality of supervision
Twenty supervision missions (an average of four to five a year) were held during the life time of the project. The continuity of leadership with the same Task Team Leader (with extensive experience in Afghanistan) and Kabul based fiduciary and safeguard staff helped in addressing the challenges (mainly resettlement issues) that rose during implementation. Supervision missions included field visits to Aynak area when security permitted. Given that this project was an emergency project at design with expedited procedures, the team following the Mid-Term Review appropriately eliminated the activities that were funded by other donors and realigned the project activities with evolving government priorities in the sector. As indicated in Section 11, a project preparation grant was attached to an ongoing project to address the as-yet unresolved resettlement issues at Mes Aynak. The support provided by the team aided in addressing the financial management challenges that rose during implementation.
One deficiency in the area of safeguards associated with Physical Cultural resources was the lack of an archeologist in the Bank team with expertise in upstream excavation and conservation.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Unsatisfactory

9. Assessment of Borrower Performance

a. Government Performance
Government commitment at preparation, was demonstrated by its articulation of the national strategy for the development of the extractive industries sector in the National Extractive Industries Excellence Program (NEIEP) and by its endorsement of the principles of the EITI in 2009 and thereby signaling its further commitment to transparent and accountable sector governance. Prior to appraisal, the government enacted legislation regarding natural resource extraction and this included, the Law on Land Expropriation in 2005, the Environment Law in 2007, the Land Management Law in 2008 and the Minerals Law in 2015 aimed at mitigating the negative social impacts of mining (ICR, page 16). The government provided strong leadership and this aided in compliance with safeguards pertaining to protection of physical cultural resources (ICR, page 23, discussed in Section 11a).

- Given the delays in procurement processing by the Project Management Unit (PMU), it is not clear why the government did not gradually transfer the core functions (such as procurement processing and planning and contract management) of the PMU to the Ministry to ensure ownership, as recommended by the Bank. The strained relationship between the PMU and the government contributed to the government decision to withhold payment of invoices for several key consultancies during implementation and the backlog in payments was only cleared several months after project closure (ICR, page 20).

- Delays on the part of government in promulgating mining regulations (including further amendments to the new mining law approved in 2009) contributed to the investor uncertainty about the extractive sector. Changes in leadership in the Ministry of Mines and Petroleum (MOMP) following the 2014 Presidential election in conjunction with absence of key staff in the MOMP), contributed to procurement delays and this contributed to the non-completion of activities (such as the development of the Aynak deposit proposed by a project sponsor in 2013 and completion of contracts for four mines) at project closure. Further, the International Advisory Panel (IAP), tasked with the responsibility of providing technical support during the tender process was not functional by 2014, due to procurement delays (ICR, page 20).
- Poor communication between the Aynak Authority and the community contributed to the non-compliance with the Bank's policy on implementation of the Resettlement Action Plan (discussed in Section 10a).

Government Performance Rating
Moderately Unsatisfactory

b. Implementing Agency Performance
The Ministry of Mines and Petroleum (MOMP) was overall in charge of implementing the project and the Project Management Unit (PMU) was responsible for the day-to-day management of project implementation and coordination. The PMU was already in charge of the ongoing Bank-financed project and was familiar with the Bank's fiduciary procedures and policies (discussed in Section 11b).

- Weak capacity on the part of the implementing agency (exacerbated by the government's inability) to transfer the core functions (such as procurement processing and planning) to the MOMP contributed to the procurement delays.
- There was non-compliance with safeguards pertaining to Involuntary Resettlement and compensation had not yet been made to the Project Affected Persons at project closure.

Implementing Agency Performance Rating
Moderately Unsatisfactory

Overall Borrower Performance Rating
Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design
There were eight key output indicators, including (1) the total number of tenders: (2) reporting of data for the larger mining and hydrocarbon deposits at closure: (3) the number of Extractive Industries Transparency Initiative (EITI) reconciliation reports issued during the project lifetime (4) number of field investigation reports that were completed for Health, Safety and Environment (HSE) compliance; (5) the number of workers

(including women) employed in gemstone, polishing and jewelry; (6) the number of drafted corporatization plans: (7) view of key stakeholders such as local non-state actors, international companies and the donor community as to how well the sector was managed with respect to licensing decisions and approvals and (8) the number of sites in Aynak Valley where protection activities were initiated. These indicators were appropriate for monitoring performance associated with the PDO of strengthening the capacities of the respective ministries to regulate the extractive industries operations in a transparent manner. The key output indicators - the number of corporatization plans completed at closure and the perception of key stakeholders regarding the transparency of the licensing process - were appropriate for monitoring performance with regard to private sector development in the extractives sector.

b. M&E Implementation

The following changes were made to M&E during implementation. The targets for one outcome indicator - the percentage of sites in Aynak Valley where protection activities of antiquities had started- was revised upwards to focus on the entire concession area (the original targets pertained only to archeological preservation activities on the main zone of impact from mining activities). The target for one intermediate indicator (the percentage of licenses that were digitized) were revised down to a more realistic level that could be achieved and the intermediate indicator associated with the number of sub-sector strategies was dropped, as this activity was implemented by another donor.
Hiring of an M&E specialist by the Project Management Unit facilitated the collection of data for the results framework and for monitoring project performance.

c. M&E Utilization

The data collected was utilized for monitoring project performance.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

The project was classified as a Category B project. Other than environmental assessment (OP/BP 4.01), two social safeguards were triggered: Physical Cultural Resources (OP/BP 4.11) and Involuntary Resettlement (OP/BP 4.12). OP/BP 4.01 was triggered in view of the possibility of adverse environmental and human health impacts (such as due to the lack of proper analysis of the possible release of toxic chemicals into the air) during mining operations and after closure. OP/BP 4.11 was triggered given that the Archeological Recovery and Preservation Plan of the Aynak heritage. OP/BP 4.12 was triggered in view of the possibility of involuntary resettlement due to land acquisition for the mine.
Environmental Assessment. The project was an "emergency operation" and hence exempt "from certain

safeguard requirements" at appraisal. A sector wide strategic Environment and Social Assessment (SESA) was to be conducted during preparation and the findings of the SESA were to be incorporated into a project-related Environment and Social Management Framework (ESMF) and a Resettlement Policy Framework (RPF). There were delays in finalizing the SESA as the initial assessments were found to be inadequate. The SESA and the ESMF were consequently finalized and publicly-disclosed mid-way into project implementation (ICR, page 17). There were no adverse environmental issues and the environmental compliance was deemed to be satisfactory ICR, page 22).

Physical Cultural Resources. Five screening studies of known mineral deposits were prepared during implementation (ICR, page 23). The ICR reports that during implementation, there arose the need for protecting physical cultural resources at the site of an ancient ruin of a Buddhist monastic complex containing sculptures of Mes Aynak. Although security risks precluded archeological work at the site for nearly thirty years, security improved in 2010 when a security perimeter was established by the Ministry of Mines and Petroleum to help facilitate the company's mining operations. Compliance with safeguards pertaining to physical cultural resources was deemed to be satisfactory during implementation (ICR, page 23).

Involuntary Resettlement. An Aynak Resettlement Action Plan and a Resettlement Policy Framework -as an annex to the ESMF- were prepared during project implementation (ICR, page 22). The ICR notes that during the Mid-Term Review (MTR) , it was determined that the information provided to the Bank on resettlement was "*sparse and confusing*" and that the Ministry of Mines and Petroleum had proceeded with the process of land acquisition and compensation for an access road close to the mine site, without having followed due process in matters pertaining to a household survey, identifying losses and developing a second Resettlement Action Plan. These recommendations were made following the MTR to remedy the issue: (1) Having a social specialist on the team: and, (2) Third Party review and monitoring of processes and outcomes pertaining to land acquisition /compensation /resettlement in Ayank (ICR, page 22). The ICR (page 23) notes that although there was some improvement since then, several key deficiencies remained at project closure (such as the Ministry's inability to procure a water pump for the new township/resettlement site and a final list of Project Affected People who were entitled to compensation) (ICR, page 23). The ICR notes that a project preparation grant had been attached to an ongoing project to address the as-yet unresolved issues at Mes Aynak.

Inspection Panel. The ICR (page 24) notes that compliance with these safeguard policies underwent rigorous management review with the results reported in 2013 under *Management Response to Request for Inspection Panel Review* of the project. The management response addressed the complaints raised by requesters and on April 23, 2013, the Inspection Panel submitted their report to the Bank Board, recommending no further investigation.

b. Fiduciary Compliance

Fiduciary arrangements. The Project Management Unit (PMU) responsible for fiduciary compliance had experience with managing Bank projects and was familiar with the Bank's financial and procurement management requirements.

Financial Management. An assessment was conducted at appraisal to assess the financial management capacity of the implementing agency (Emergency Project Paper, page 56). The financial management risk was

rated as Substantial. Risk mitigation measures incorporated at appraisal included utilizing the existing PMU, which was adequately staffed by international and national consultants, to coordinate the financial management activities and training programs. The ICR (page 24) states that there were delays in processing payments during implementation but provides no details on the quality of audits. According to the information provided by the team, the audits were unqualified.

Procurement. An assessment was conducted at appraisal to assess the procurement management capacity of the implementing agency (Emergency Project Paper, page 72) and a Procurement Plan was prepared at appraisal (Emergency Project Paper, page 78). As discussed in section 9a, there were procurement delays due to deficiencies in procurement processing and contract management during implementation. The ICR also notes that there were complaints by consultants on account of a decision by the Ministry to withhold payment of invoices. The backlog in payments was cleared several months after project closure.

c. Unintended impacts (Positive or Negative)

---

d. Other

---

12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Unsatisfactory	Relevance of Objective is rated High, while Relevance of Design is rated Modest. Efficacy of the two objectives and efficiency are rated as Modest.
Risk to Development Outcome	Substantial	High	There is high Institutional risk and security risk.
Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	There were several shortcomings in design at entry.
Borrower Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Quality of ICR		Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

The ICR draws the following main lessons from the experience of implementing this project, with some adaptation of language.
(**1)** A strong **portfolio of resource development projects through smaller investments can be helpful to both the government and the investor**. This would aid in enabling regulatory and contract compliance.
(2) Government ownership is important for ensuring success. The implementation of this project was undermined by the frequent changes in leadership in the ministry.
(3) Long term engagement for sustainable reforms is likely to be be required in the extractive industry sector. While the Bank engagement has been facing significant challenges regarding projects in Afghanistan, the experience of this project showed that it is critical to maintain some level of engagement and then rapidly scale up investment when the political economy environment becomes more conducive.
(4) The project design should address issues related to absorptive capacity, particularly in weak environments. The decision to cancel some parts of the grant was mainly on account of the low absorptive capacity in the country context.(**5) Strong donor coordination is required at the outset of project preparation to avoid duplication.** This is particularly so in the case of resource rich but fragile countries where there is likely to be significant donor-funded activities.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR is well-written and provides a candid description of the events that affected implementation. It is particularly candid while discussing issues related to involuntary resettlement and non-compliance with safeguards.
The tables provided in Annex 1 (page 48) are confusing and inconsistent. While the table on financing states that US$35.78 million was disbursed out of the revised IDA grant of US$40.00 million at closure (given that US$12 million had been cancelled during the project restructurings), it is not clear how the actual project cost could be US$40.00 million, unless an additional US$4.22 million had been cancelled by closure (given that the only source of financing for the project was IDA grant and no borrower contribution was planned at appraisal and there was no borrower contribution during implementation). The ratings specified for Relevance of Objectives and of Design, Efficacy and Efficiency are not aligned with the IEG guidelines. According to the guidelines, Relevance of Objectives, Design, Efficacy and Efficiency are on a four-point scale (High, Substantial, Modest and Negligible) and not on a six-point scale as implied by the ICR.

a. Quality of ICR Rating
Substantial