

TOWARDS REGIONAL
ECONOMIC GROWTH
& STABILITY:

**THE SILK ROAD
THROUGH
AFGHANISTAN**



Islamic Republic of Afghanistan
Ministry of Foreign Affairs

RECCA 

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Message from the Minister of Foreign Affairs



In the name of Allah, the Most Merciful, the Most Compassionate

It is a pleasure for me to welcome you all to the Sixth Regional Economic Cooperation Conference on Afghanistan (RECCA-VI) here in Kabul. Situated between major conferences on Afghanistan in Beijing and in London in late 2014, then in Islamabad in late-2015, we are able to announce that RECCA-VI marks the largest international gathering in Kabul since the establishment of the National Unity Government. It is our aim to make it the most successful RECCA conference thus far.

It is with particular satisfaction that I note the ever expanding number of states and organizations—and now private sector actors as well—supporting the RECCA process, which is founded on the principles of the Kabul Declaration of Good Neighborly Relations (signed by Afghanistan and its immediate neighbors in 2002). RECCA-VI is unique insofar as it solicits input and draws directly on the involvement from a vast number of policymakers, investors, entrepreneurs, scholars, and civil society representatives in a rich discourse on the topic of regional economic cooperation. We believe the interaction of these prominent individuals and diverse groups will generate a continuing dialogue that will augment the work of policymakers and officials and deepen the confidence and cooperation among the countries of Central and South Asia and their peoples. Furthermore, close coordination with the Istanbul 'Heart of Asia' Process has allowed for a more cogent investment strategy and investment framework to emerge, through economic confidence building measures.

RECCA-VI is aiming to be a breakout RECCA, focusing foremost on connecting funding sources with a short list of bankable infrastructure projects that have significant value added for Afghanistan and our partners in the wider region. These feasible projects have met strict criteria, and thereby can be more readily galvanized in funding and construction terms. We are persuaded in practical terms that implementation of these projects will be a catalyst for greater economic cooperation in the near term, therein laying the foundation of deeper regional integration in the medium and long term.

Therefore, I would like to welcome the esteemed delegates to RECCA-VI as I encourage them to take advantage of the two days of the RECCA conference to advance our shared vision of greater cooperation across numerous borders, and help bring to fruition our collective interest in shared regional development and prosperity.

So now in this regard I would like to invite the active engagement of all participants in the Conference, for we highly appreciate your valuable contribution to achieving the goals and aspirations set forth in the final declaration.

Thank you very much.

Salahuddin Rabbani
Minister of Foreign Affairs

Aknowledgements

This Regional Economic Cooperation Conference on Afghanistan (RECCA) report reflects the support, advice and technical inputs from many organizations and individuals, far too numerous to mention.

The Ministry of Foreign Affairs wishes to acknowledge the strong support and collaboration of the Afghan line Ministries and institutions, in particular, Ministries of Public Works, Transport, Energy & Water, Mines & Petroleum, Commerce & Industries, Finance, Economy, Information & Communications Technology, Agriculture, Irrigation & Livestock, Labor, Social Affairs, Martyrs & Disables, as well as the Civil Aviation Authority, Da Afghanistan Bank, Da Afghanistan Breshna Sherkat, Afghanistan Investment Support Agency, the National Environmental Protection Agency, Afghanistan Natural Disaster Management Agency, and the Afghanistan Chamber of Commerce and Industry.

The Ministry of Foreign Affairs also extends its gratitude to a large number of regional and international organizations including but not limited to the Asian Development Bank, the World Bank and UNESCAP for their contribution towards building consensus on key regional issues in Afghanistan.

Special thanks go to the Directorate General for Economic Cooperation of Ministry of Foreign Affairs team led by Wahidullah Waissi and included Mostainbellah Balagh, Ahmad Shoaib Habibi, Assadullah Hamdard, Ahmad Faheem Hunarwar, Abdul Bashir Raufi, Mohammad Ismail Joya, Rohola Rezaei, Ahmad Helal Atmar, Farzana Niazi, Fyeza Sadat, Mohammad Sadiq Allemyar, Ahmad Naweed Aryaee, Shahwali Nasery, Mukhtaruddin Nezami, Zarif Qasemi, for their invaluable efforts who dedicated themselves tirelessly to a successful RECCA process and completing this important document in consultation with both national and international partners.

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Abbreviations & Acronyms

ACCI	Afghanistan Chamber of Commerce and Industries	KPI	Key Performance Indicators
ADB	Asian Development Ban	KTAI	Kyrgyz Republic-Tajikistan-Afghanistan-Iran railway route
AFRA	Afghanistan's Railway Authority	MCC	Metallurgical Corporation of China
ANDMA	Afghanistan National Disaster Management Authority	MoLSAMD	Ministry of Labor and Social Affairs, Martyrs, and Disabled
AISA	Afghanistan Investment Support Agency	MoMP	Ministry of Mines and Petroleum
ANRP	Afghanistan National Railway Plan	MoFA	Ministry of Foreign Affairs
AFTA	ASEAN Free Trade Area	MoPW	Ministry of Public Works
AIIB	Asian Infrastructure Investment Bank	MoT	Ministry of Transport
AITF	Afghanistan Infrastructure Trust Fund	MEW	Ministry of Energy and Water
AKT	Afghanistan-Kyrgyz Republic-Tajikistan	MRRD	Ministry of Rural Rehabilitation and Development
ASYCUDA	Automated System for Customs Data	MoCI	Ministry of Commerce and Industries
ATGP	Afghanistan Tajikistan Gas Pipeline	MoF	Ministry of Finance
BCM	Billion Cubic Meters	MoICT	Ministry of Communications and Information Technology
BOT	Build-Operate-Transfer	MoUs	Memorandum of Understandings
BOOT	Build Own Operate Transfer	MSME	Micro to Small Medium Enterprise
BOO	Build Own Operate	MMIP	Multi-Model Inland Ports
BT	Build Transfer	NDB	New Development Bank
CASA-1000	Central Asia South Asia 1000 MW Electricity Line	NEPS	North East Power System
CASAREM	Central Asia South Asia Regional Electricity Market	NFPP	Northern Fertilizer Power Plant
CAREC	Central Asia Regional Economic Cooperation	NRVA	National Risk and Vulnerability Assessment
CBA	Central Bank of Afghanistan	NVP	Net Present Value
CBM	Confidence Building Measure	O&M	Operations and Maintenance
CSATTF	Central and South Asia Transport and Trade Forum	OFC	Optical Fiber Cable
CCI	Chamber of Commerce and Industries	OSCE	Organization for Security and Cooperation in Europe
CIS	Commonwealth of Independent States	PIDG	Private Infrastructure Development Group
CLDP	Commercial Law Development Program	PIP	Priority Investment Projects
DABS	Da Afghanistan Breshna Sherkat	PPIAF	Public-Private Infrastructure Advisory Facility
DBO	Design-Build-Operate	PPA	Power Purchase Agreement
EBRD	European Bank for Reconstruction and Development	PPSAs	Power Purchase and Sales Agreement
EIAs	Economic Impact Analysis	PPP	Public Private Partnership
EIB	European Investment Bank	PVPS	Photovoltaic Power System
ERR	Economic Rate of Return	RECCA	Regional Economic Cooperation Conference on Afghanistan
EU	European Union	ROOT	The Rehabilitate Own Operate Transfer
FDI	Foreign Direct Investment	RMU	Road Maintenance Unit
FTZ	Free Trade Zone	SAAEC	Serviço Autônomo de Água e Esgoto de Cerquilho
FVN	National Highway Fund	SAARC	South Asian Association for Regional Cooperation
GAIL	Gas Authority of India Limited	SEZ	Special Economic Zone
GoA	Government of Afghanistan	SCO	Shanghai Cooperation Organization
GDP	Gross Domestic Products	SGDP	Sheberghan Gas Development Project
GIF	Global Infrastructure Facility	SOM	Senior Official Meeting
GCC	Gulf Cooperation Council	SVP	Special Purpose Vehicle
HVDC	High Voltage Direct Current	TAPI	Turkmenistan-Afghanistan-Pakistan-India
ICCIA	Islamic Chamber of Commerce, Industry and Agriculture	TAT	Turkmenistan-Afghanistan-Tajikistan railway
IIRM	Implementation and Investment Road Map	TMAF	Tokyo Mutual Accountability Framework
IDB	International Development Bank	TUTAP	Turkmenistan, Uzbekistan, Tajikistan, Afghanistan, Pakistan
IFC	International Finance Corporation	UNIDO	United Nations Industrial Development Organization
IFI	International Financial Institutions	UNDP	United Nations Development Fund
IPP	Independant Power Plant	UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
IGC	Inter Governmental Council	UNSPEC	United Nations Special Program for the Economies of Central Asia
ILSP	International Senior Lawyers Project	US	United States
IMF	International Monetary Fund	USAID	United States Agency for International Development
JCCI	Joint Chamber of Commerce and Industries	WITS	World Integrated Trade Solution
JRCCI	Joint Regional Chamber of Commerce and Industries	WB	World Bank
JCPOA	Iran Joint Comprehensive Plan of Action		

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INTRODUCTION

Since 2005, RECCA has provided a forum for regional engagement on economic cooperation. Critical to its success has been keeping pace with global, regional, and domestic economic shifts, and providing a platform for regional and donor governments for a more coordinated investment framework, while also availing itself of emerging investment opportunities, including for the private sector. Since its establishment, over the past decade RECCA has worked to:

- Facilitate implementation of a select number of high impact regional economic cooperation investment projects;
- Maximize inter-regional trade, including with and through Afghanistan;
- Identify a series of economic policy priorities;
- Create a regional energy market;
- Facilitate trade and transit routes;
- Harmonize customs and borders routines; and,
- Expand markets and market access for public and private investors.

In 2015 however, with short term regional growth revised downwards, it has rarely been more pressing for regional partners to strengthen cooperation, improve competitiveness, lower transaction costs, and expand markets.

GEO-ECONOMIC CONTEXT

Three years on from the previous RECCA (Dushanbe, 2012) the world and Central and South Asia have experienced a series of noteworthy geo-economic shifts, altogether which are allowing for a set of more favorable conditions for RECCA-VI. The Iran nuclear agreement, by way of its looming economic re-engagement with the wider region, is a potential game changer. One key implication of this landmark agreement will be a sustained reduction in the global price of oil. Speaking of Iran, the membership of the Shanghai Cooperation Organization (SCO) is slated to increase, with Turkey and Iran likely to gain membership in the near term. And the Central and South Asia region is widely predicted to become an economic hot spot in the next decade.

China and India are making major investments in the infrastructure of two new regional economic corridors, the former to end in Gwadar and the latter to begin in Chabahar. In addition, agreements have recently been signed on two transport infrastructure projects: the Lapis Lazuli Transit Trade and Transport Cooperation (Lapis Lazuli Route), which will connect Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey, and the Five Nations Railway Corridor (linking China and Iran via Afghanistan, Tajikistan, and Kyrgyz Republic). Finally, in terms of regional energy integration, the CASA-1000 electricity transmission project and the TAPI petroleum pipeline project have picked up serious momentum in 2015. As such, RECCA-IV is poised to provide an additional boost to regional prospects (see Section 3).

REGIONAL ANALYTICAL LENS

Given the critical importance of enhancing both geographical connectivity and economic governance, trade analysis largely focuses on the 5 Central Asian States (Kazakhstan as the regional center, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan) and Afghanistan, Pakistan and Iran. While China has a shared border with Afghanistan, minimal trade moves along the Wakhan Corridor and India is a very close partner although not contiguous in territorial terms. Key statistics on trade with India and China are also presented.

ADDRESSING SHORTCOMINGS

While the conference has provided a significant platform for regional collaboration on economic cooperation, to date RECCA has not fully lived up to its vision and aspirations. The list of shortcomings includes the following:

- **A One-Off Conference Approach that is too Afghanistan-focused:** Holding a one-off conference process focused primarily on Afghanistan's economic priorities without organized follow up, as well as the absence of a formal secretariat and authorizing environment for project investment in Afghanistan's wider region, the linkages between economic cooperation investment decisions and the conference itself are thus limited;
- **Lack of up-to-date analysis:** Without up-to-date information and analysis, the consensus and coordination among regional governments is undermined;
- **Lack of feasibility study capacity:** Numerous projects have been stalled pending completion of feasibility studies;
- **A passive approach to raising funding:** With limited capacity to prepare projects and market them to potential sovereign and private equity financiers, projects have been largely financed through external mechanisms;
- **Lack of sustained leadership, monitoring, and economic impact assessment:** When sustained follow-through and monitoring between conferences are not undertaken, gaps in understanding develop and undermine improved cooperation;
- **Poorly defined linkages with the Istanbul Process, CAREC, SAARC, and other regional cooperation processes:** Rather than defining and pursuing systemically mutual complementarities with other regional forums, the RECCA platform is still viewed as sometimes overlapping and competing with both new and long-standing regional cooperation initiatives; and,
- **Lack of a comprehensive project-based website:** Establishing a RECCA Web-based Portal would add crucial consultative and coordination value at little cost, including map overlays for key infrastructure, updated to provide a current assessment of investment project status (and something partners can contribute to directly on line).

Implementation arrangements for RECCA must be revised in order to make RECCA more effective. The stocktaking exercise highlights a number of limitations, many of which can be overcome with only modest investment and simple re-adjustment to working processes and institutional capacities. Not only will this strengthen alignment between RECCA and the "*Istanbul 'Heart of Asia' Process*," but more importantly it will provide a more substantial economic payoff to all regional stakeholders (see Section 2).

ESTABLISHING A VIRTUAL RECCA COMMISSION

RECCA will set up a comprehensive web site and on line interactive web portal. It will function akin to a virtual commission which will ensure that a follow-up process will remain in place and provide heretofore lacking conference continuity. All updates on projects, assessments, and feasibility studies will be stored on the regularly updated web site, and partner governments and private sector actors will be able to log in and participate via the portal. At this year's conference there will hopefully be a consensus to convene RECCA more regularly in the future, but short of a full-blown secretariat this web site / portal will provide an enhanced implementation capability that has been missing in the past.

THE NEW TRADE & TRANSIT CORRIDORS

As the Silk Road is rapidly turning into multiple new Silk Roads, particularly in light of major corridors that India and China are constructing, it has become clear that connectivity between Afghanistan and the wider region is now being driven from the outside in rather than inside out. Thus, RECCA-VI is being transformed into a fully regional enterprise—particularly through its key instrument, the Regional Economic Growth and Stability Strategy for Central Asia and South Asia—with expanded benefits for the entire region. Accordingly, this year's conference and those in the future will be as much about the region as they are about Afghanistan. The four new economic corridors and the two major regional energy projects under construction do not include either the North Corridor or the South Corridor as originally conceived by RECCA. However, each one provides financial returns for a different set of project partners, as well as substantial economic spillovers—what economists refer to as positive externalities—for other countries in the region.

NEW ASPECTS OF RECCA

With significant shifts in the geo-economic context and the objective of kick starting funding for feasible infrastructure projects connected to the new corridors, this novel approach requires a thorough overhaul of RECCA's conference proceedings. This more focused approach is reflected not only in the conference agenda and documents, but also the new Economic Impact Assessments, the refined list of feasible priority investment projects, the involvement of new private sector sources of project funding, and—during the implementation phase—both an investment "road show" and an interactive web portal and website. Thus, a new RECCA Implementation Phase will commence at the conclusion of this year's conference and last until the next conference in 2016.

BANKABLE PROJECT INVESTMENT CRITERIA

In short, a “bankable project” is a project that is capable of being financed by the private sector; though Governments and donors can play a key catalytic role in fostering investment models that can be replicated and multiplied. If a given energy or infrastructure project is not bankable, then the private sector will not produce a financier for that project. Whereas the public sector may or may not fund a given project because of its strategic or political value in addition to its economic value, the private sector considers only the latter. As traditional western donor governments have failed to invest in important projects in Afghanistan and the region, RECCA-VI inaugurates a different approach to funding critical projects.

Taking cues from the private sector, RECCA’s economic team has instituted the following project feasibility criteria:

- Must be bankable (i.e. able to attract a private financier);
- Must have demonstrable impact on growth in trade, transit, or extractives;
- Must have proper Project Management and Governance Arrangements in place;
- Must encourage private equity participation / private sector development;
- Must have sufficient cash flows and positive NPV and Internal Rate of Return above the opportunity cost of capital;
- Can be implemented in 12-36 months;
- Must contribute significantly to employment and revenue in the region;
- Must have a clear risk management and mitigation plan.

ILLUSTRATIVE PROJECT INVESTMENT PRIORITIES

Projects that do not meet the above feasibility criteria will not make the list of Priority Investment Projects primarily because, by definition, they are not bankable. What RECCA and the region need are viable catalytic infrastructure projects capable of producing force multiplier effects for multiple countries, with an affordable investment price tag commensurate with an ability to ensure sustained operations and maintenance. As such, mega projects like the Salang Tunnel—while desirable in the medium and long term—do not meet the criteria and thus do not make the short list of priority projects. Priority Investment Projects meeting the above criteria include:

- Multi-Modal Inland Ports;
- Employment / Remittances in GCC + C5 States;
- Energy PPP Projects;
- The Lapis Lazuli Route;
- The Five Nations Railway;
- Joint and Regional Chamber of Commerce and Industries; and,
- Afghanistan, Kyrgyz Republic, and Tajikistan (AKT) Agro Food Industry Development;
- Critical Feasibility Studies:
 - Kandahar IPP;
 - Extension of the Rail / Road Lines between Chaman and Kandahar (Feasibility Study);
 - Railway between Sheberghan and Herat, part of the Five Nations Railway Corridor (Feasibility Study);
 - Multi-Modal Inland Ports (MMIP) in three locations: **1)** along the Chabahar-Zaranj-Herat-Kandahar corridor;
 - 2)** Kabul-Torkham corridor; and **3)** in Aqina or Torghundi (Feasibility Studies).
- Kyrgyz Republic-Tajikistan-Afghanistan-Iran (KTAI) Railway Route

MOBILIZING PRIVATE EQUITY

RECCA has begun reaching out to the private sector in addition to the public sector. This includes, but is not limited to, new investment banks like the New Development Bank and the Asian Infrastructure Investment Bank; sovereign wealth funds, including Gulf state sovereign wealth funds that have capital they need to move; and new funding modalities like Power Purchase Agreements and Public Private Partnerships, which have broad potential for the region. These types of investors are much more naturally attracted to bankable projects, and compared to governments market actors are less inhibited by political problems and sensitivities. Several Gulf-based sovereign wealth funds have already expressed interest in investing in Afghanistan infrastructure projects and are attending the conference.

UNDERTAKING ECONOMIC IMPACT ANALYSIS

Economic Impact Analysis (EIAs) takes its place at RECCA this year, despite the fact that the majority of projects being undertaken have no limited EIA work conducted or publicly available. Each country invested in a given project will accrue specific economic benefits, such as a boost to GDP growth, additional government revenue, and an additional number of jobs created. The RECCA-VI economic team has crunched existing numbers and created sector comparators, and during the conference illustrative EIAs for the countries involved or potentially involved in a given project will be provided, including technical projections that go beyond mere assessments of GDP growth. A variety of data, examined with this unprecedented technical approach, are also exhibited on regional trade flows, remittances, etc.

LAUNCHING INVESTMENT ROAD SHOWS

RECCA-VI implementation will involve a new post-conference implementation phase for RECCA. The capstone of the implementation phase will involve the diplomatic version of a “road show,” which will follow up directly on conference deliberations with both government and private sector actors. The recent success of Egypt in raising funds for a parallel Suez Canal demonstrates that relationships between private equity firms and major construction companies is best courted using investment road shows for bankable projects. Follow-up will also take place in regional capitals with the attempt to convince regional partners to appoint a high level official who answers directly to the President to function as the RECCA point person in each government.

RECCA-VI OBJECTIVES AND NEXT STEPS

This year’s RECCA aims to put on a milestone conference, distinct from and more regionally focused compared to previous RECCA meetings. Whereas the primary objective of RECCA-VI is to facilitate new investment deals for specific bankable projects, part of this will occur over the course of the two-day conference, and part will occur during the post-conference implementation phase.

Further regionalizing RECCA, adding Economic Impact Assessments, expanding the role of private sector actors, incorporating new funding modalities, marketing bankable infrastructure projects, and instituting a new implementation phase are objectives already partially achieved through conference presentation of the Regional Economic Growth and Stability Strategy: the Silk Road through Afghanistan. Altogether they have been introduced to help Afghanistan and its regional partners forge new deals on catalytic, force-multiplying regional infrastructure projects and develop joint policy priorities for strengthening economic cooperation across the Central and South Asian region.

RECCA's New Approach

- 1 A **new format** for RECCA making it more effective as a tool of financing projects.
- 2 A clear focus on **bankable project** (projects that attract a financier) bringing in non-traditional partners such as sovereign wealth funds and private equity.
- 3 Establishment of a **Virtual RECCA Commission** as a Knowledge Hub and Project Portal.
- 4 Linking bankable projects with **Investment Road Shows** to attract sovereign and private capital.
- 5 Establishment of a **RECCA Strategy and Work Plan**, with Key Performance Indicators.
- 6 A strong focus on **Public Private Partnerships (P3)**, including **Power Purchase Agreements**.
- 7 Building capacity to conduct critical **Feasibility Studies**.
- 8 Working with **Private Infrastructure Development Group (PIDG)**, **Public-Private Infrastructure Advisory Facility (PPIAF)** and World Bank **Global Infrastructure Facility**.

Example Priority Projects For RECCA 2015

1. Multi-Modal Inland Ports
2. Employment / Remittance in GCC + C5 States
3. Energy PPP Projects
4. Critical Feasibility Studies



Figure 1 AFGHANISTAN-UZBEKISTAN RAILWAY LINE



Alternative Corridors Open Up Trade, Transit & Mining Opportunities



Figure 2 Source: Directorate General for Economic Cooperation, MoFA, Afghanistan. Map: National Geography

2.

OVER-ARCHING NARRATIVE & STRATEGY

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2.1 Background

1. Since 2005 RECCA has provided a forum for regional engagement on economic cooperation. Critical to its success has been keeping pace with global, regional, and domestic economic shifts, and providing a platform for a more strategic and coordinated investment framework while also availing itself of emerging investment opportunities. In 2015, with short term growth outcomes revised downwards, it has rarely been more pressing for regional partners to strengthen cooperation, improve competitiveness, lower transaction costs, and expand markets.

2. The Central Asia-South Asia region continues to deal with a host of development challenges, which are well known. What is less well known, but becoming better known by the day, is the vast potential of this region for becoming a new global center of economic dynamism in the coming decades. The Silk Road parlance is increasingly being used by government officials, journalists, and academics in an ever wider number of countries, and other rosy projections for the future of Central Asia-South Asia are using such terms as the “global land bridge” and the coming “epicenter of global economic activity.” Regional economic banks like the ADB and other international financial institutions are increasingly turning out analyses that have lent greater legitimacy to the projections of future Central Asia-South Asian growth and development. The new Asian Infrastructure Investment Bank can also be expected to focus considerable resources on the region. The increased degree of attention being given to this topic is based on a variety of causal factors, chiefly increased foreign direct investment (FDI).

3. More than three years on from the previous RECCA (March 2012 in Dushanbe), the world has experienced a series of noteworthy geostrategic shifts that are allowing for a set of more favorable conditions for RECCA-VI this September. Topping them all is the Iran nuclear agreement, a potential game changer well beyond the Middle East. One of the key implications foreseen from this nuclear qua peace deal is a sustained price reduction in the global price of oil, as well as increased trade between South-West Asia, South Asia, and Central Asia. Closer to the region we are witnessing China begin to make good on longstanding plans to build its version of the modern Silk Road, the first installment of which will be a major transit corridor running through Pakistan. And the region is now predicted to become a regional economic powerhouse in the next decade. As such, RECCA-IV is poised to provide an additional boost to regional prospects.

4. Economists are projecting that Central Asia-South Asia (with its onward connections to Europe and East Asia) will become the new global center of economic growth and activity in the next ten years, with the cornerstone of international economic dynamism shifting from East Asia to South Asia. The impact of a combination of intersecting factors is projected to result in a broad range of expanded growth and development across Central Asia-South Asia. In the short term however, with economic vulnerabilities exposed as a result of falling international commodity prices and a stronger US dollar, the entire regional geo-economic context is rapidly evolving. For example, the membership of the Shanghai Cooperation Organization (SCO) is increasing, with Afghanistan, Belarus, India, Iran, Mongolia and Pakistan now observers, and Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka, and Turkey now dialogue partners.

5. Afghanistan can be expected to play a substantial role in these rising regional prospects, both as a contributor to and a beneficiary of a range of commitments being made by itself, by other countries in the region, and by combinations of the two. In the short run, while it has made major strides forward in terms of its military and political transitions, it is still looking to make similar strides in its economic transition. Encouraging steps are being taken in mid-2015 on two major energy projects in which Afghanistan is prominently involved: the CASA-1000 electricity transmission project and the TAPI petroleum pipeline project. In addition, agreements have recently been signed on three transport infrastructure projects: the Chabahar port development agreement (which will connect India and Afghanistan via Iran); the Lapis Lazuli Route (which will connect Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey); and the Five Nations Railway Corridor (linking China and Iran via Afghanistan, Tajikistan, and Kyrgyz Republic). If the short term economic prospects of Afghanistan remain challenging, its middle and long term prospects appear far more promising.

2.2 Regional Macro-Economic Context

6. The IMF's Regional Economic Outlook Update for the Caucasus and Central Asia, released on May 19 2015, forecasts a downward revision of 2.5 percentage points to 3 per cent, from the estimate made in October 2014. With the economic slowdown hitting key trading partner Russia (GDP growth is at 0.5 per cent), alongside lower oil prices (affecting the external position and current account balances of Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan) growth outcomes are likely to remain subdued. In addition, the appreciation of the US dollar and the depreciation of the ruble have compounded the challenges faced by the region as a whole, with the growth outlook now looking as bad as it did in 2008-09.

7. The regional impact of a sustained decrease in global oil prices is expected to cut both ways for RECCA partner countries, presenting different challenges and/or benefits to countries depending on whether they are energy rich or energy dependent. In an overall sense, the spur toward greater regional economic integration should, nonetheless, be received from both oil producers and oil importers alike, albeit for different reasons. Oil importers, depending to the degree to which individual governments subsidize oil and gas products locally, should expect to receive a fiscal boost through this positive economic shock to their economies. *Inter alia* this will free up financing for cross-border investment and combine with other wind in their economic sails to provide further economic confidence for reaping additional benefits from increasing cross-border trade, transit, and investment as called for by RECCA.

8. Whereas oil exporters will be buffeted in the opposite manner, presenting a new challenge for making up lost revenue and tax receipts amid an ease in economic growth. The gains from increased cross-border trade and investment under the RECCA framework, therefore, present these partner countries with a timely opportunity for diversifying their economies and developing novel sources of wealth and income. Thus, partner countries in Central Asia-South Asia, even with their diverse experiences in light of new regional economic trends, should find ample reason to strive for new progress as a result of implementing various RECCA measures.

9. The biggest potential boost to regional economic growth, jobs, and revenues will come from improved governance cooperation, combined with the opening up markets to facilitating growth in trade, transit, and extractives. Regional partners must diversify their economies away from reliance on commodity exports, remittances, and in the case of Afghanistan, international assistance. With Afghanistan unalterably landlocked, an immense push to improve economic connectivity is needed if a path to self-reliance is to be achieved. The Afghanistan Government strategy for Self-Reliance, which is being supported by a new IMF Staff Monitored Program will address economic vulnerabilities while facilitating engagement with the international community to secure the economic transition.

Impact on Net Exports

Only energy and mining projects have the capacity to increase net exports by any significant degree. The impact of the ancillary projects on net exports is likely to be insignificant. If net exports increase, the trade deficit falls. If net exports increase and/or GDP increases, the current account deficit as a percent of GDP will fall (assuming donor financing is concessionary). Mining, energy, and transport projects are strategic enablers. Current exports (excluding narcotics which is illegal - despite its impact on growth) will be insufficient to protect potential downward pressure on the capital account as a result of donor deleveraging.

2.3 Emerging Strategic Investment Framework

10. Since the last RECCA conference in 2012, a number of strategic changes have taken place both within Afghanistan and across Asia and the Middle East. In Afghanistan, instead of the planned emergence of a North-South and East-West Corridor, two new major corridors are set to emerge, one from China to Pakistan and one from India through Iran into Central Asia. On the energy front, both TAPI and CASA-1000 now have considerable momentum.

11. For the RECCA Conference to remain relevant, it must be visionary in engaging new institutional alignments while responding to emerging opportunities. It must focus on genuine Central Asia-South Asian regional priorities that provide a springboard and multiplier effect for increased economic cooperation, and it needs to avoid megaprojects that are unlikely to be financed, implying greater prioritization and sequencing. In addition, what has become clear is that connectivity between Afghanistan and the wider region is not happening from the inside out, but rather from the outside in. As a result emerging shifts in regional economic cooperation that RECCA-VI aligns with include, but are not limited to:

i. The **Lapis Lazuli Route:** The recent commitments towards this multimodal trade and transport route are promising. The Lapis Lazuli Route encompasses part of the Central Asia Regional Economic Cooperation (CAREC) Program Transport Corridor #2, stretching from China in the East – through the Kyrgyz Republic, Uzbekistan, and Turkmenistan – to Azerbaijan in the West. However, instead of continuing on to Uzbekistan from Turkmenistan, the Lapis Lazuli Route turns south toward Afghanistan from Turkmenistan at the border town crossing of Andkhoy, Afghanistan. Beyond CAREC Transport Corridor #2 in the West, the Lapis Lazuli Route stretches through Georgia and connects with both Turkey by land and several European nations, including Bulgaria, Romania, and the Ukraine, via the Black Sea and to Kars and Bosphorus via Istanbul.

ii. **Iran Joint Comprehensive Plan of Action (JCPOA):** The P5+1 (China, France, Germany, the Russian Federation, the United Kingdom, and the United States, with the High Representative of the European Union for Foreign Affairs and Security Policy) and the Islamic Republic of Iran have successfully negotiated a historic nuclear agreement, which if implemented would see sanctions lifted on Iran, with promising implications for regional economic cooperation;

iii. **India-Iran Garland Highway:** The recent agreement between India and Iran on the development of Chabahar Port, to be operational by December 2016, will provide access to Afghanistan's Garland Highway using the existing Iranian road network and the Zaranj-Delaram road, constructed by India in 2009, establishing direct road access to Herat, Kandahar, Kabul, and Mazar-e-Sharif;

iv. **Multimodal Inland Ports (MMIP):** The construction of three MMIPs – in Kabul, Jalalabad, and Mazar – has long been under discussion and given the new regional investments, these inland ports present an opportunity to promote regional freight and passenger transshipment with most of Afghanistan's neighbors. The Afghanistan Central Bank is government's lead agency in these efforts and UAE, India, and the US have emerged as key partners;

v. **Electricity Transfer from Turkmenistan, Uzbekistan, Tajikistan, to Afghanistan & Pakistan (TUTAP):** TUTAP provides multiple, distinct projects aimed at to opening up new markets by building transmission lines to supply power at lower costs, increase energy security and energy efficiency within the region, and provide for competition in the Central and South Asian regional electricity market.

vi. **The Five Nations Railway Corridor:** This transport project will connect East Asia to Central and South Asia and expand inter-regional trade and development, while also enhancing increased social and political integration, by constructing a railroad linking China to Iran via Afghanistan, Tajikistan, and Kyrgyz Republic;

vii. **Central Asia and South Asia 1000 (CASA-1000):** Tajikistan national power utility Barki Tojik has secured a \$110m loan from the European Bank for Reconstruction and Development (EBRD) to fund the construction of the Central Asia-South Asia (CASA)-1000 cross-border electricity transmission project; and,

viii. **Turkmenistan-Afghanistan-Pakistan-India (TAPI):** At the 22nd Steering Committee meeting in Ashgabat the partners agreed that state-owned TurkmenGaz will lead the multinational consortium with a majority investment, in a pivotal project costing US\$9 billion; ADB is the lead partner in the 1,814 km pipeline project, expected to have a capacity of 90 million standard cubic meters per day of gas from Turkmenistan's Gunorta Yoloten-Osman fields.

12. This regional economic cooperation framework can be viably augmented by a range of cross-border trade, transit, and investment initiatives provided under the RECCA Regional Economic Growth and Stability Framework for Central Asia-South Asia. By both improving conditions for peace talks between the Government of Afghanistan and those seeking to supplant it through violence, as well as benefiting from projected stabilization dividends over time, a more stable Afghanistan is poised to resume its former role as a dynamic crossroad connecting major Eurasian sub-regions. Moreover, with Iranian oil production set to increase after the nuclear agreement and a predicted lifting of sanctions, an additional noteworthy trend is the expected sustained decrease in the international price of oil towards US\$35 a barrel.

2.4 Emerging Investment Modalities

13. The legitimate buzz about the Central Asia-South Asia's immense potential stems from how energy rich most of the countries in this region are, even though a large amount of its energy resources have yet to be extracted due to such ongoing challenges as instability and the lack of sufficient infrastructure at present. Another element stems from how much investment is being planned in the region, including from countries participating in RECCA-VI—in particular China and India. And part of it also has to do with the affordability of labor and the degree to which regional laborers have the potential to grow in skill and competitiveness terms and still be more competitive in labor cost terms compared to countries in East Asia.

14. The impact of these major trends means that on this occasion RECCA is set to take place amid a distinctly different regional and global context, with a fresh range of challenges and opportunities for the partner countries that overall amount to clear net positive for the potential impact of RECCA-VI. While traditional development partners such as the World Bank, ADB, and EBRD have played an important role in financing regional economic integration, the reality is that new investment partners are beginning to emerge. The Government of Afghanistan and RECCA partners must look actively to these new sources and financing modalities to compliment traditional sources. New project financing modalities are beginning to emerge, including, but not limited to the new options outlined in Table 1 below.

EMERGING FINANCING MODALITIES	
Modality	Approach
<ul style="list-style-type: none"> • New Investment Banks Established • Sovereign Wealth Funds • New Project Funding Modalities Emerge • Investment Road-Shows for Bankable Projects 	<p>The New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB) are likely to play a key role in infrastructure development, and should be involved in the RECCA and Istanbul Heart of Asia Process, via a Silk Road Fund.</p> <p>At no point over the period of 2001 to 2015 have Sovereign Wealth Funds invested in Afghanistan, though as strategic partners there is a strong likelihood they can be successfully engaged. For example, Dubai World Ports is assessing prospects for multiple dry ports in the country.</p> <p>New funding modalities such as private equity, Power Purchase Agreements (PPA), and Public Private Partnerships (PPP) now hold considerable potential for RECCA partners.</p> <p>The recent success of Egypt in raising funds for mega projects demonstrates that relationships with private equity firms and major international business council members are ideally courted using Investment Road Shows for bankable projects.</p>

2.5 Implications for Action

15. Unlike previous conferences, RECCA-VI will present technically specific economic benefits of increased regional economic integration for Afghanistan and all of its neighbors, as well as a novel approach for attracting project financing. As a result, the three distinguishing features of RECCA-VI will be its **(I)** demonstrable high impact economic benefits for each RECCA partner country; **(II)** plans to source financing from innovative regional public-private partnerships and sovereign wealth funds, for a focused set of regional economic priorities; and **(III)** a coordinated series of investment promotion meetings immediately following RECCA-VI in the run-up to the next *'Heart of Asia Istanbul Process'* Ministerial planned for 8 December 2015 in Islamabad. The higher level of ambition for RECCA-VI reflects a higher level of economic expectations for the entire region.

16. As the heart of RECCA-VI is getting the economic analysis firmly in place, with data directly in the hands of each government participating in the conference. This means placing a spotlight on the wider catalytic and multiplier effects that individual investment projects would have both for Afghanistan and its neighbors (e.g. impact on GDP, revenues, and jobs), as well as the economic and financial rates of returns for projects. RECCA-VI has an opportunity to prepare and showcase state-of-the-art economic impact analyses that will definitively demonstrate a range of tangible prospective economic and financial gains for each individual RECCA partner, as well as the region as a whole. A team of international economists has prepared said analyses prior to the conference, and in the presentation of the results there is a specific emphasis on bankable projects that can demonstrate progress in 12-18 months and are scalable in the next 2-3 years.

17. A newfound emphasis on sourcing the financing for infrastructure projects is slated to occur at RECCA-VI. On the one hand, a series of regional investors have been invited to the conference and will be included in the post-conference road shows. In particular there is an inclusion of regional sovereign wealth funds from several Gulf countries. On the other hand, emphasis is also being placed on hybrid sources of financing in terms of bring the public and private sectors together. As such, both Public Private Partnership (PPP) and Power Purchase Agreements (PPA) models are outlined as means for attracting both public and private sources of financing for the bankable projects with benefits for various groupings of RECCA partner countries.

18. The third novel element of RECCA-VI will actually occur subsequent to the 3-4 September conference. A coordinated series of investment promotion meetings in regional capitals is being planned as well. These investment "road shows" will likely occur in the Gulf States (e.g. UAE and KSA), India, China, and several of Afghanistan's immediate neighbors. Particular attention will be given to showcasing the tangible returns on investment for Afghanistan's neighbors and partners from 8-10 pragmatic flagship projects in the area of regional transport, regional energy, regional trade, and private sector development. The work of the conference economic team will be presented in full as a key part of the road shows. These bankable high impact projects can serve as the connective tissue for wider regional economic integration efforts in South-Central Asia, Middle East, and Caucasus.

19. This more cogent approach with updated state-of-the-art analysis will allow for a more select number of model projects to be showcased, primarily because they provide the most viable examples of investments that can be realized, replicated, and multiplied over the medium to longer term. Key Performance Indicators (KPIs) and an Implementation and Investment Road Map (IIRM) will be developed, which will underpin the Joint Declaration. The Implementation and Investment Road Map will include detailed pitches to individual investors in the region, regional investment banks, and sovereign wealth funds in the Gulf States. Each of these potential sources of finance have been sitting out of sagging commodities markets and have considerable funds they are looking to move. Central Asia-South Asia via RECCA-VI infrastructure investment opportunities will be able to make a viable case for significant returns in the years ahead.

20. One of the most prominent limitations on the vast economic potential of this resource rich region is the lack of modern infrastructure necessary for the extraction and transport/distribution of the considerable deposits of minerals and energy products, particularly in countries such as Afghanistan. The new Regional Economic Growth and Stability framework, with RECCA as a forum for assessing progress and facilitating the strategy's implementation, is ideally placed to help connect the dots between the region's prodigious potential and the immediate need for vastly improved infrastructure—in particular if it is backed up by state-of-the-art analysis, which will lend even greater legitimacy to the expected gains for RECCA partners moving forward and implementing the agenda of RECCA-VI. Afghanistan needs to continue to engage its regional partners proactively in to establish its role as a transit route linking energy-rich Central Asian countries with energy hungry South Asian countries, as well as broader conduit and crossroads for regional trade and communications.

3.

EMERGING REGIONAL TRADE DYNAMICS

- 21 Bilateral Trade
- 22 China
- 23 Iran
- 24 India
- 25 United States
- 26 Russia
- 27 European Union
- 28 Pakistan
- 29 Tajikistan, Turkmenistan, and Uzbekistan
- 30 Emerging Trade Patterns

3.1 Emerging Regional Trade Dynamics

21. Given the importance of trade, transit, and extractives for Afghanistan's future growth model, and that the majority of trade take place within the immediate region, it is useful to look at the trade relations between Afghanistan and countries that are geographically contiguous, as well as major trading partners within the region. The particular focus on countries that are geographically contiguous, is also justified given that Afghanistan has historically been a trade choke, though it has the potential to become catalytic also.

22. Aside from the geo-economic context, it is important to understand the regional economic context insofar as it constitutes the most important facet of overall regional cooperation in Central Asia-South Asia, Eurasia, and the Middle East. This section takes an analytical lens by focusing on the countries with a shared boundary, which allows RECCA to exhibit an array of emerging trends in terms of intra-regional economic relations as well as extra-regional relations. We therefore look at historic and emerging inter-regional trade relations between:

Table 2

APPROXIMATE GEOGRAPHICALLY CONTIGUOUS PARTNERS INCLUDE:

Afghanistan	Tajikistan
Iran	Turkmenistan
Kazakhstan	Uzbekistan
Kyrgyz Republic	India
Pakistan	China

23. With the Chinese Yuan progressing towards status as a global reserve currency, it is clear that the influence of the East is growing rapidly. According to McKinsey & Company, in their 2012 report entitled '*Urban World, Cities and the Rise of the Consuming Class*', it has been calculated that the economic center of gravity of the World is rapidly shifting east at a speed of 140 km a year; a pace faster than previously recorded in human history. Rapid urbanization, which Afghanistan is also experiencing, is an emerging reality that will change urban-rural balance.



Figure 3 EVOLUTION OF THE EARTH'S CENTER OF GRAVITY

¹ See http://www.mckinsey.com/insights/urbanization/urban_world_cities_and_the_rise_of_the_consuming_class

24. Chart 1 exhibits a strong trend of growing intra-regional trade within Central Asia and South Asia, an approximate US\$20 billion increase over the last decade and a half with exports nearly matching imports. Countries included here include the *Central Asian 5, Afghanistan, Pakistan and Iran – the contiguous geographical countries*. Consistent with this trend, economists expect these flows to double in less than ten years. The World Bank World Economic Development Indicators shows that since 1990 Kazakhstan, Uzbekistan, and Turkmenistan are growth leaders, with Tajikistan and the Kyrgyz Republic lagging behind.²

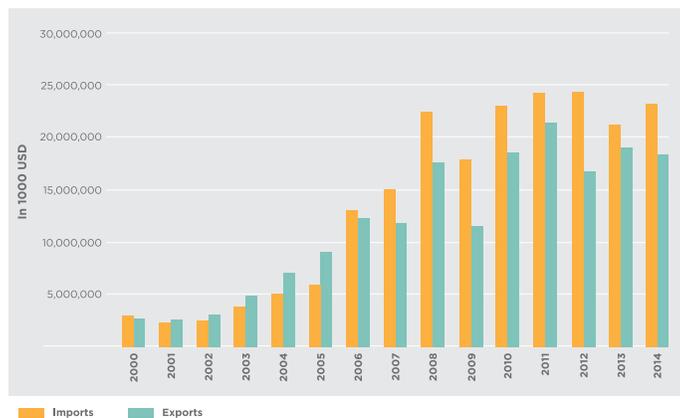


Chart 1. INTRA REGIONAL TRADE VALUE 2000-2014 (1000 USD)

25. In Chart 2 we observe rising then falling intra-regional trade as a percentage of the region's overall global trade. While the trend of initial growth over this period is positive, the decrease from 2008 forward is only prima facie negative. In fact, in light of the graph above the graph below can be interpreted in a more positive light, as the decrease over the previous seven years indicates the contiguous Central Asia and South Asian states are increasing their trade beyond the region at the same time they are increasing it within. In addition, following the global financial crisis of 2008-9, we are seeing the region slowly rebound in terms of its growing share of global trade.

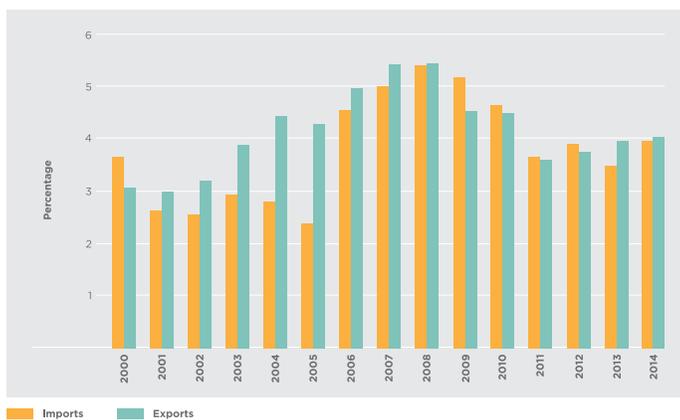


Chart 2. SHARE OF THE REGION'S TOTAL GLOBAL TRADE (2000-2014)

26. In Chart 2 right we observe rising then falling intra-regional trade as a percentage of the region's overall global trade. While the trend of initial growth over this period is positive, the decrease from 2008 forward is only prima facie negative. In fact, in light of the graph above the graph below can be interpreted in a more positive light as the decrease over the previous seven years indicates increasing trade beyond the region at the same time as within it. In addition, following the global financial crisis of 2008-9, we are seeing the region slowly rebound in terms of its growing share of global trade.

² Data for product level trade has been retrieved from WITS at the two digit HS 1988 level. There are limitations to the Data though. Since data in WITS/Comtrade is compiled through reporting by Country Statistical authorities, imports reported by one country often do not match exports reported by its trading partner. Differences are due to various factors such as countries not reporting due to confidentiality issues, poor data collection practices in some countries and factors such as valuation (FOB/CIF). These limitations are also reflected in the data compiled for Afghanistan. For instance it has been observed that the import categories reported by Afghanistan from China do not match with the export categories reported by China from Afghanistan.

27. From 2000 to 2014 we observe the immediate region's trade volume with the EU as fully a quarter of its overall trade with partners, as well as mild increase in the EU percentage over this period. The U.S. may have been expected to have at least as large a percentage given its outsized role in the military efforts in the region over the past decade, instead it comes in as the region's second largest trade partner but at half the volume of EU-Central-South Asian trade. Moreover, US-Central-South Asian trade has decreased 100 basis points over this period.

28. Another strong trend emerges with UAE's moving into third overall in the region's rank order at nearly 8% by 2015, from a 2000 level of less than 3.5%—a notable surge. Russia and Japan fall off the ranking entirely, whereas Saudi Arabia emerges at tied for fifth in the order at roughly 3%. Honk Kong and the UK remains on the short list, but each is relatively static. Whereas China makes a strong emergence, coming in at 2014 with a fourth place ranking at nearly 6%. Given present trends, coupled with the high prospects for the Iran nuclear deal, we can expect an ever-expanding share of trend between Central Asia-South Asia and both East Asia and Southwest Asia/the Middle East. Chart 4 shows regional trade with the US from 2000 to 2014, showing a strong trend in exports but decline in imports.

Chart 4. REGIONAL TRADE WITH U.S. (2000-2014)

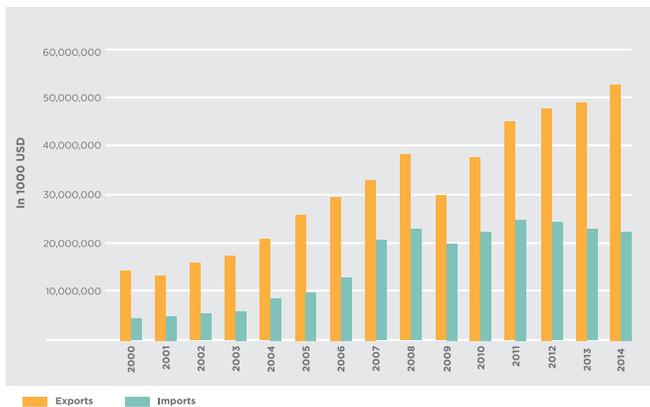
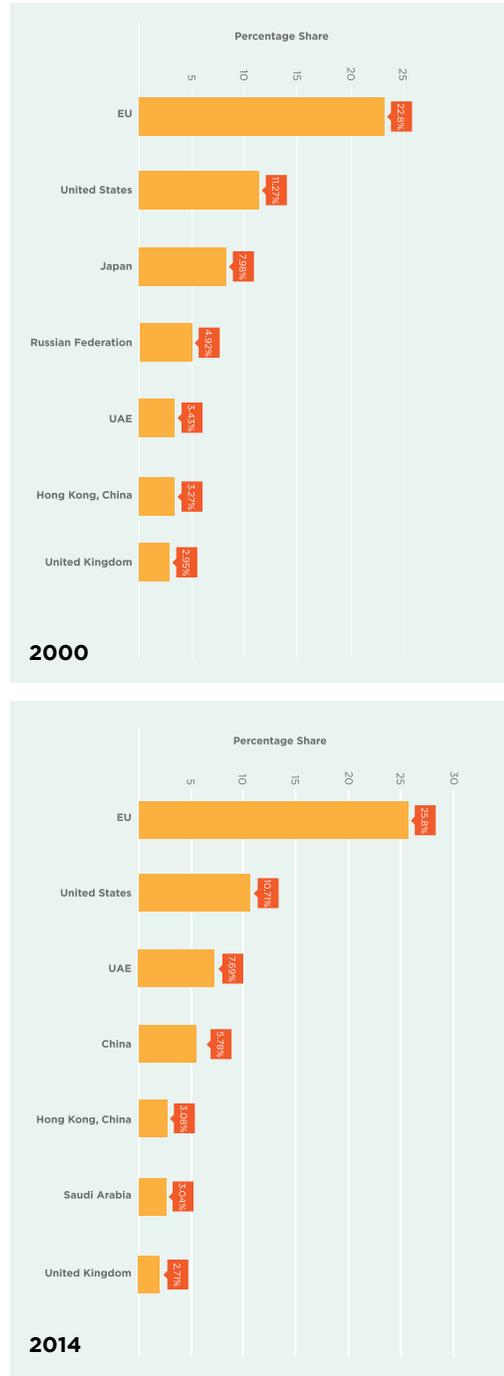


Chart 3. CENTRAL SOUTH ASIA CONTIGUOUS REGION MAIN TRADING PARTNERS (2000/2014)



29. Regional trade with the U.S. over the past 15 years increases by a modest order of magnitude, albeit with a growing imbalance that favors the region – though imports have flattened out. A mirror of this trend is found with India, although the imbalance may be decreasing in recent years and the volume with India a whole order of magnitude smaller compared to the U.S. (Chart 5).

30. Compared to the U.S. and India, the growing volume of trade with Russia (Chart 6 below) is balanced against the Central Asia-South Asia, whose exports have been outstripped by faster rising percentage of imports from Russia. Central Asia-South Asia’s trade volume with Russia is substantially higher than that with India, while both are growing. By contrast, whereas it’s trade with the EU has leveled in the last five years, as the region’s strongest trading partner the volume is still another level of magnitude above both Russia and the U.S. Exports to the EU have risen faster and have leveled off at roughly US\$5 billion more than imports, giving the region a positive trade balance with its biggest trading partner. This leveling off has coincided with the adverse global economic conditions stemming from the global financial crisis of 2008-2009.

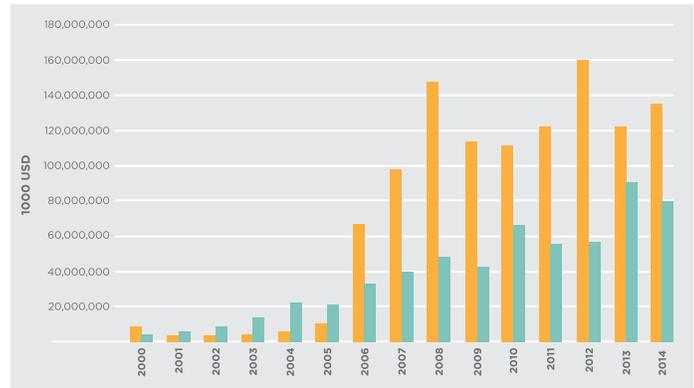


Chart 5. CONTIGUOUS REGIONAL TRADE WITH INDIA (2000-2014)

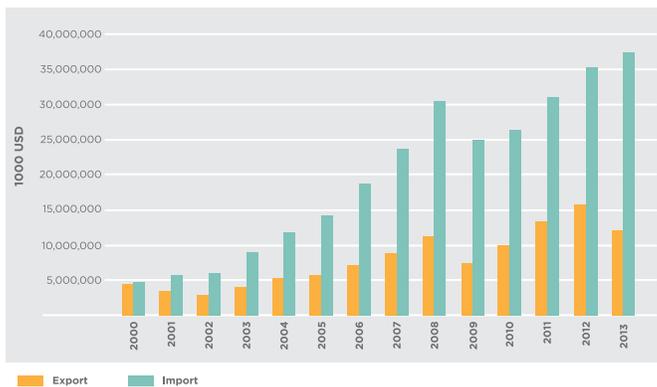


Chart 6. TRADE WITH RUSSIA

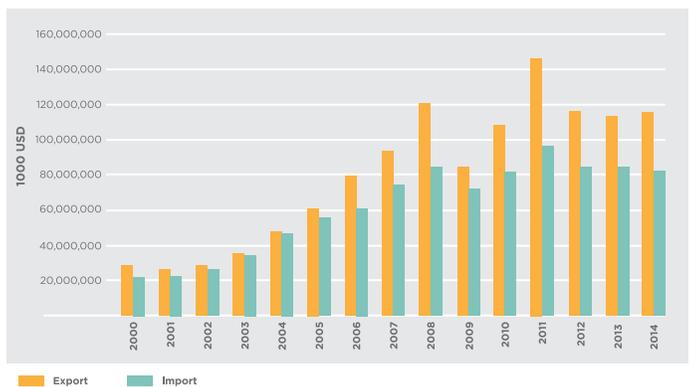


Chart 7. REGIONAL TRADE WITH EU

3.2 Bilateral Trade

31. Afghanistan itself trades with partners in rank order of Pakistan, India, U.S., EU, China, Kazakhstan, Turkey, UK, and Azerbaijan. Although it exports half of all its exports to Pakistan alone, Afghanistan has a US\$1.4 Billion trade deficit with Pakistan. Afghanistan's trade imbalance is considerable and can only be addressed by boosting exports. With India there is a trade deficit of US\$190 million and with China that of US\$370 million.

Table 3

TOP AFGHANISTAN IMPORTS/EXPORT PARTNERS (1000 USD) - 2014

Exports			Imports		
Country	Exports	Share of Total Exports	Country	Imports	Share of Total Imports
Pakistan	392,161	46.93	Pakistan	1,879,093	36.75
India	243,720	29.16	USA	677,591	13.25
USA	72,015	8.62	EU	654,796	12.81
EU	66,725	7.98	India	442,875	8.66
China	17,371	2.08	China	393,559	7.70
Turkey	16,488	1.97	Kazakhstan	333,538	6.52
UK	3,750	0.45	Azerbaijan	275,990	5.40
Kazakhstan	3,170	0.38	Turkey	186,402	3.65

Source: World Integrated Trade Solution (WITS) – World Bank

China

32. Afghanistan's exports to China are negligible, compared to its rising imports from China with the exception of 2013 when there was considerable political uncertainty in the country. However, with Chinese ownership of the Aynak Copper Mine, large oil tracts in the north of Afghanistan, and a growing interest in rare earth minerals, exports in these large and potentially lucrative economic sectors can be expected to reduce the Afghanistan's trade imbalance with China in the coming years.

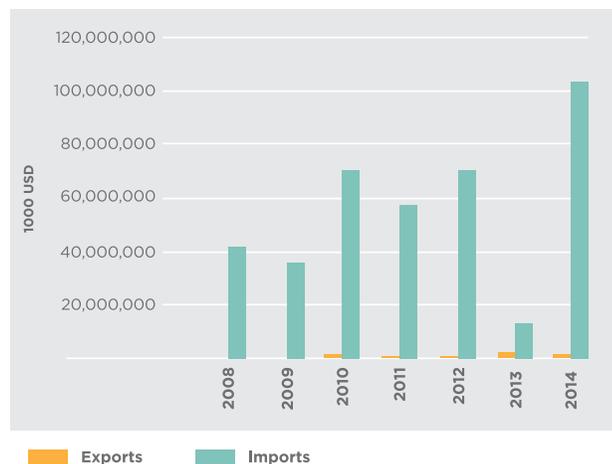


Chart 8. AFGHANISTAN BILATERAL TRADE WITH CHINA

Source: World Integrated Trade Solution (WITS) – World Bank

33. Trade between both China and India with Afghanistan has seen steady growth over the past fifteen years, particularly in terms of exports from both countries to Afghanistan. In the case of China, exports to Afghanistan has increased nearly twenty fold, from just under US\$20 million/annum in 2000 to exports valued at close to US\$393 million in 2014. For India, exports totaling a little more than US\$23 million/annum in 2000 shot up to a record US\$513 million in 2013, while currently sitting at around US\$476 million/annum in 2014. Meanwhile, Chinese imports from Afghanistan remained negligible over the same period, reaching only an estimated US\$17 million in 2014. The potential is high, however, for Chinese imports in the area of extractives (including copper, rare earth minerals and oil) to grow in the coming years. In India, on the other hand, imports have steadily increased from Afghanistan in the past decade and a half, starting at close to US\$26 million in 2000 and reaching almost US\$244 million in goods imported by 2014.

Table 4

AFGHANISTAN'S KEY IMPORTS FROM CHINA

HS Code	Trade Value in US\$1,000	Product Description
58	245,820.2	Special woven fabric; tufted textile fabric; lace; tapestries etc.
48	25,763.29	Paper & paperboard; art of paper pulp, paper/paperboard.
40	17,355.75	Rubber and articles thereof.
9	13,032.72	Coffee, tea, matī and spices.
62	7,821.635	Art of apparel & clothing access, not knitted/crocheted.

Source: World Integrated Trade Solution (WITS) – World Bank

Table 5

AFGHANISTAN'S KEY EXPORTS TO CHINA

HS Code	Trade Value in US\$1,000	Product Description
9	4,680.428	Coffee, tea, matī and spices.
57	396.792	Carpets and other textile floor covering.

Source: World Integrated Trade Solution (WITS) – World Bank

Iran

34. It is a similar scenario with Iran (See Chart 9). Afghanistan is experiencing steadily increasing imports but negligible exports - although imports are US\$1.5 Billion higher from Iran compared to China. With Iran on the verge of implementing a historic nuclear deal with representatives of the international community, with reduced sanctions the prospects are high for increased trade between Afghanistan and Iran, alongside increased trade through Afghanistan between Iran and several of Afghanistan's northern neighbors. HS Code are provided in Annex 4.

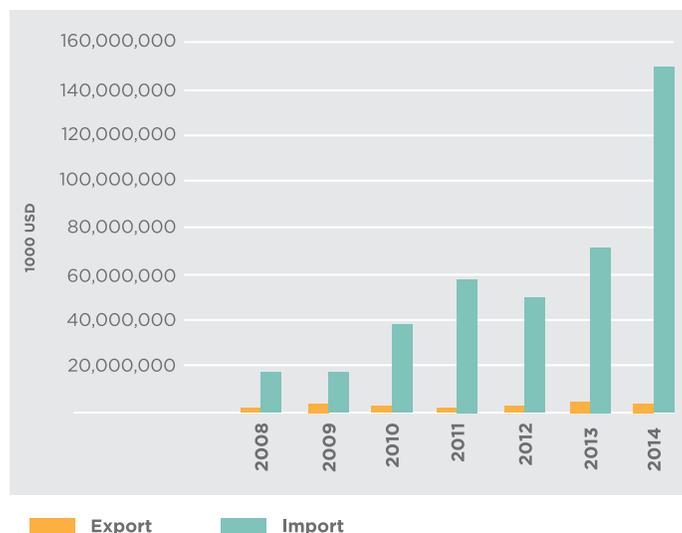


Chart 9. AFGHANISTAN BILATERAL TRADE WITH IRAN

Source: World Integrated Trade Solution (WITS) – World Bank

Table 6

AFGHANISTAN KEY IMPORTS FROM IRAN

Product Code	Trade Value in US\$1,000	Product Description
27	498,250.581	Mineral fuels, oils & product of their distillation etc
38	24,224.998	Miscellaneous chemical products.
58	569.121	Mineral fuels, oils & product of their distillation

Source: World Integrated Trade Solution (WITS) – World Bank

Table 7

AFGHANISTAN KEY EXPORTS TO IRAN

Product Code	Trade Value in US\$1,000	Product Description
9	6,210.502	Coffee, tea, matī and spices.
12	11,861.646	Oil seed, oleagi fruits; miscell grain, seed, fruit.

Source: World Integrated Trade Solution (WITS) – World Bank

India

35. Afghanistan exports more to India (See Chart 10) than the above partners, but still only half what it imports—though both levels have been steadily increasing. With India’s investment in the enormous Hajigak Iron Ore Mine in central Afghanistan and the Chabahar Port in Iran (immediately to the south of western Afghanistan), increased trade can also be projected between India and Afghanistan in the years to come.

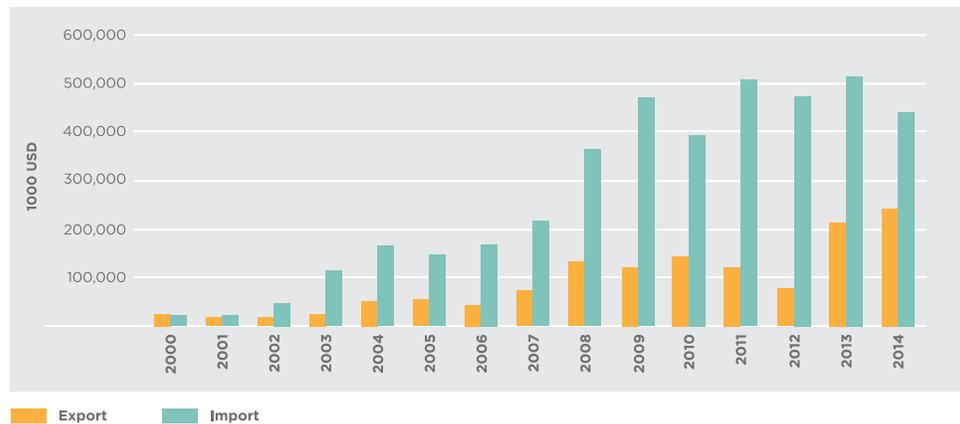


Chart 10. AFGHANISTAN TRADE WITH INDIA

Table 8

AFGHANISTAN KEY IMPORTS FROM INDIA

Product Code	Trade Value in US\$1,000	Product Description
54	146,938.404	Man-made filaments.
62	47,663.991	Art of apparel & clothing access, not knitted/crocheted
30	44,185.514	Pharmaceutical products.
61	31,209.388	Art of apparel & clothing access,
55	29,740.557	Man-made staple fibers.
24	15,774.036	Tobacco and manufactured tobacco substitutes
73	11,853.645	Articles of iron or steel.

Table 9

AFGHANISTAN KEY EXPORTS TO INDIA

Product Code	Trade Value in US\$1,000	Product Description
8	152,804.954	Edible fruit, nuts; peel of citrus fruit or melons
13	65,920.796	Lac; gums, resins & other vegetable
9	10,921.017	Coffee, tea, mati and spices
7	4,899.348	Edible vegetables and certain roots
12	3,608.908	Oil seed, oleagi fruits; miscell grain, seed, fruit
20	2,039.389	Prep of vegetable, fruit, nuts or o
85	1,210.58	Electrical machinery equipment parts thereof

United States

36. Afghanistan's exports to the U.S. are negligible, compared to rising imports over the course of the latter's growing military operation—up until 2011 when the drawdown of forces generated a sharp decrease in imports. Nonetheless, these levels are substantially lower than comparable Afghanistan's trade partners.

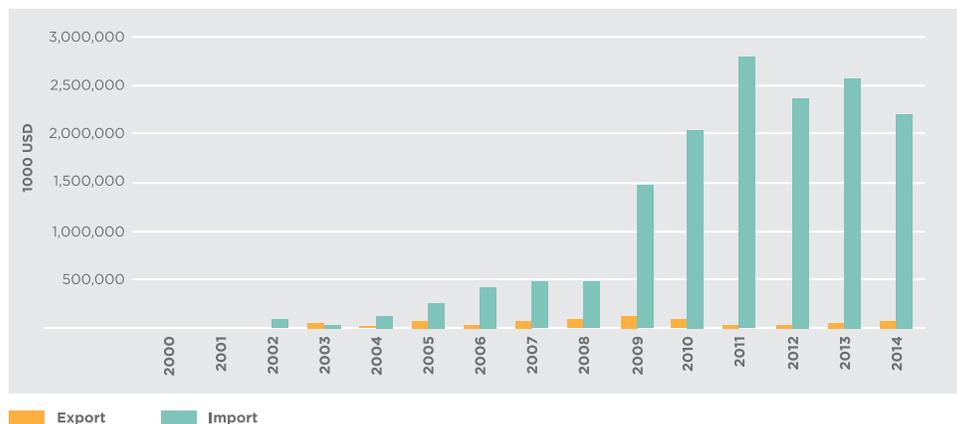


Chart 11. AFGHANISTAN TRADE WITH THE U.S.

Source: World Integrated Trade Solution (WITS) – World Bank

Table 10

KEY U.S. IMPORTS INTO AFGHANISTAN

Product Code	Trade Value in US\$1,000	Product Description
85	144855.209	Electrical mchy equipment parts thereof
87	104768.004	Vehicles o/t railw/tramw roll-stock
90	88866.517	Optical, photo, cine, meas, checkin
84	82543.568	Nuclear reactors, boilers, mchy & m
88	25827.037	Aircraft, spacecraft, and parts the
2	20343.588	Meat and edible meat offal
93	11080.745	Arms and ammunition; parts and acc

Source: World Integrated Trade Solution (WITS) – World Bank

Table 11

KEY U.S. EXPORTS FROM AFGHANISTAN

Product Code	Trade Value in US\$1,000	Product Description
1	27.2	Live animals
4	4.236	Dairy prod; birds' eggs; natural ho
7	15.244	Edible vegetables and certain roots
8	319.975	Edible fruit nuts; peel of citrus fruit or melons.
9	108.9	Coffee, tea, matī and spices.
12	2581.074	Oil seed, oleagi fruits; miscell grain, seed, fruit e
14	3.393	Vegetable plaiting materials; vegetable

Source: World Integrated Trade Solution (WITS) – World Bank

Russia

37. Afghanistan's trade with Russia (Chart 12) is US\$15 billion higher than its trade with the U.S., with much higher imports and minimally higher exports—though the import level appears to be tapering off. The spike in imports since 2009 can also be linked to the growing needs of the U.S.-led military and civilian surges, facilitated through the U.S. Military's Northern Distribution Network which largely traverses Russia.

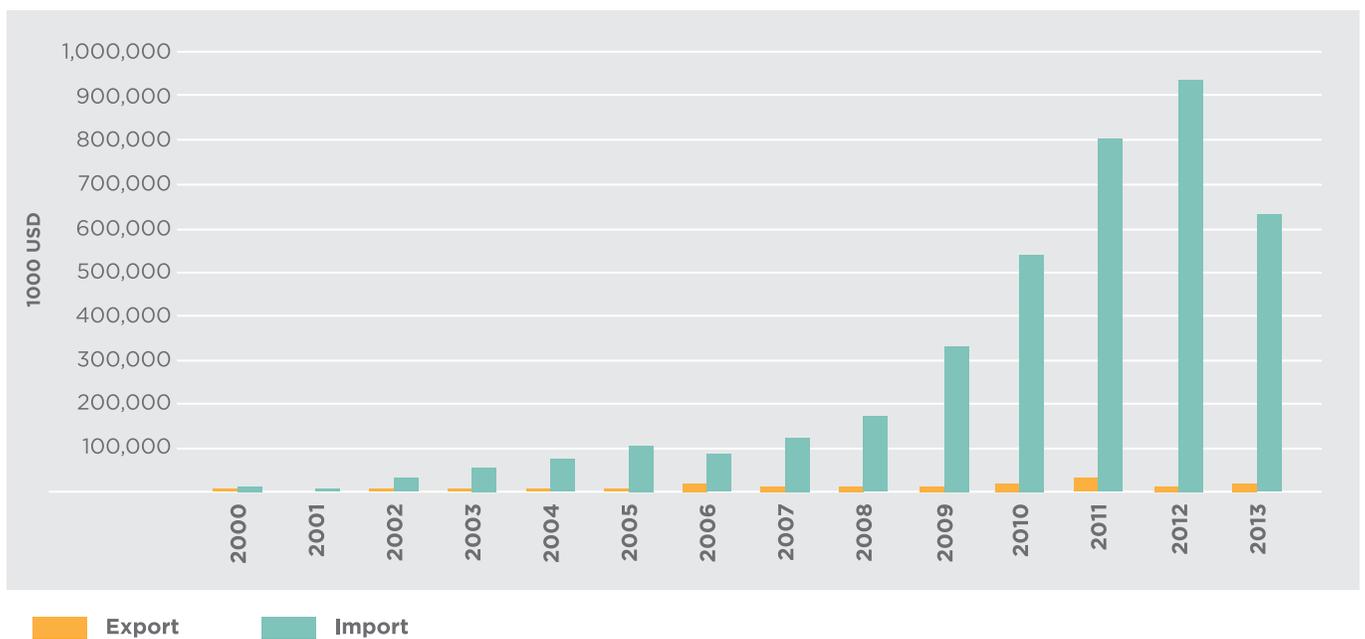


Chart 12. AFGHANISTAN TRADE WITH RUSSIA

Source: World Integrated Trade Solution (WITS) - World Bank

European Union

38. Trade levels with the EU dwarf those with the U.S., with steady downward sloping imports consistent with the military/civilian drawdown after 2011. Afghanistan's exports are modestly stronger with the EU than its other top trading partners.

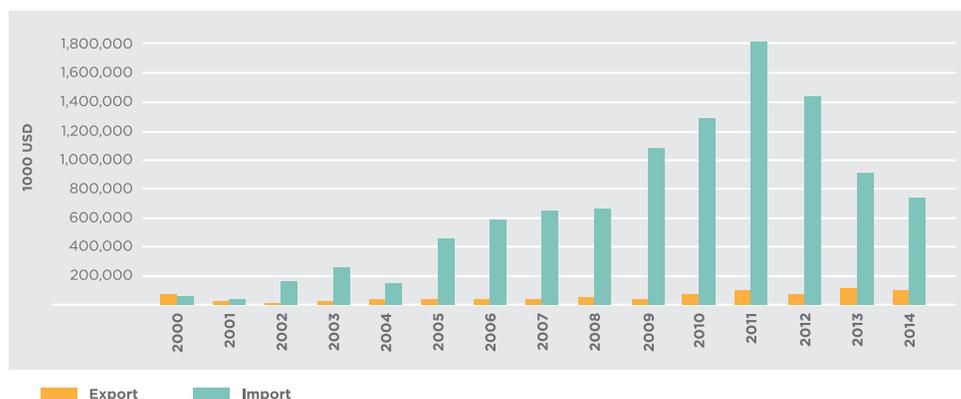


Chart 13. AFGHANISTAN TRADE WITH EU

Source: World Integrated Trade Solution (WITS) - World Bank

Table 12

AFGHANISTAN KEY EXPORTS TO EU

Product Code	Trade Value in US\$1,000	Product Description
8	14540.905	Edible fruit and nuts; peel of citr
43	10295.489	Furskins and artificial fur; manufactures thereof.
94	4347.456	Furniture; bedding, mattress, matt
9	3793.25	Coffee, tea, mati and spices.
12	2383.572	Oil seed, oleagi fruits; miscell grain, seed, fruit
51	1971.268	Wool, fine/coarse animal hair, hors
57	1970.911	Carpets and other textile floor co

Source: World Integrated Trade Solution (WITS) - World Bank

Table 13

AFGHANISTAN KEY IMPORTS FROM EU

Product Code	Trade Value in US\$1,000	Product Description
87	210030.111	Vehicles o/t rail way/tram way roll-stock, pts & accessories
30	134854.486	Pharmaceutical products.
84	54580.536	Nuclear reactors, boilers, machinery
85	40691.501	Electrical machinery equip parts thereof
27	28938.133	Mineral fuels, oils & product of their distillation
90	18733.922	Optical, photo, cine, meas, checking, precision, etc
57	1970.911	Carpets and other textile floor co

Source: World Integrated Trade Solution (WITS) - World Bank

Pakistan

39. Afghanistan exports far more to Pakistan than any other trading partner; however, the same is true for its imports, which not surprisingly surpass exports by approximately US\$1 billion. And the trade deficit with Pakistan is growing at an alarming and unsustainable level. Full implementation of the 2010 Afghanistan-Pakistan Transit Trade Agreement can help to alleviate this significant trade imbalance.

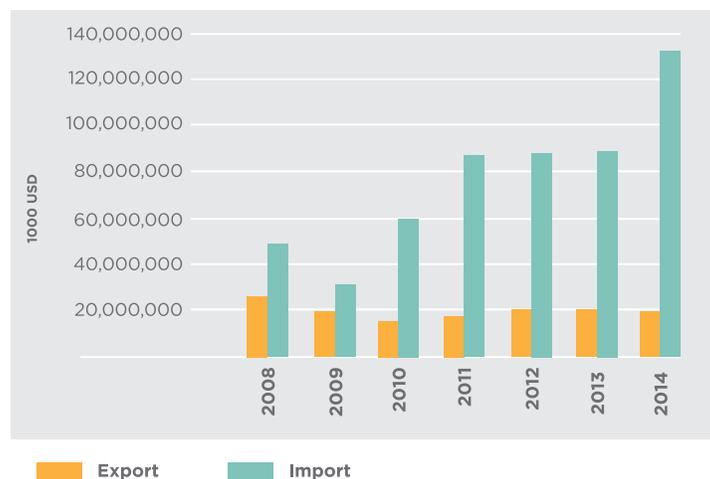


Chart 14. AFGHANISTAN TRADE WITH PAKISTAN

Source: World Integrated Trade Solution (WITS) – World Bank

Table 14

AFGHANISTAN KEY IMPORTS FROM PAKISTAN

Product Code	Trade Value in US\$,1,000	Product Description
68	160347.5	Art of stone, plaster, cement, asbestos, mica/sim mat
11	155284.3	Prod mill indust; malt; starches; inulin; wheat gluten
17	117623.9	Sugars and sugar confectionery.
38	30811.51	Miscellaneous chemical products.
58	26080.68	Mineral fuels, oils & product of their distillation
34	15579.62	Soap, organic surface-active agents
62	15382.56	Art of apparel & clothing access, not knitted/crocheted

Source: World Integrated Trade Solution (WITS) – World Bank

Table 15

AFGHANISTAN KEY EXPORTS TO PAKISTAN

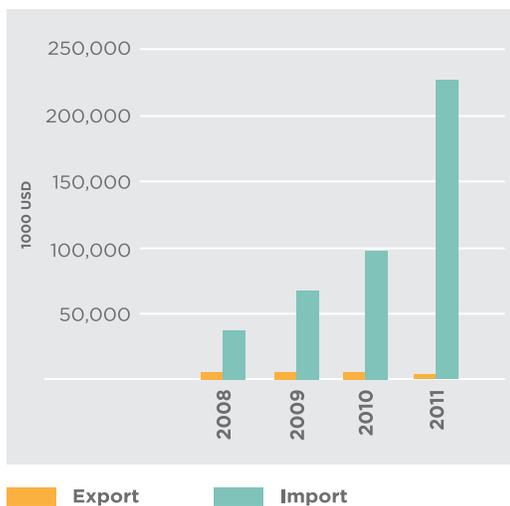
Product Code	Trade Value in US\$,1,000	Product Description
57	75049.96	Carpets and other textile floor coverings.
9	6033.214	Coffee, tea, matī and spices.
5	271.135	Products of animal origin, nes or included.

Source: World Integrated Trade Solution (WITS) – World Bank

Tajikistan

40. Exports to Tajikistan (See Chart 15) are steadily low, compared to steadily increasing imports that top out at about US\$200 Million more. Full implementation of the Afghanistan-Tajikistan Cross-Border Transport Agreement should help to increase commerce between and through both Afghanistan and Tajikistan.

Chart 15. AFGHANISTAN TRADE WITH TAJIKISTAN

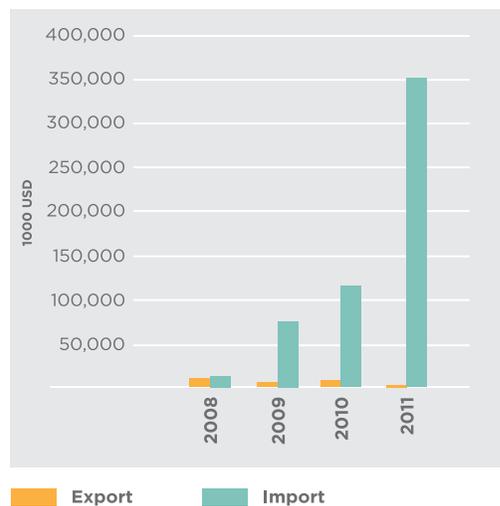


Source: World Integrated Trade Solution (WITS) – World Bank

Turkmenistan and Uzbekistan

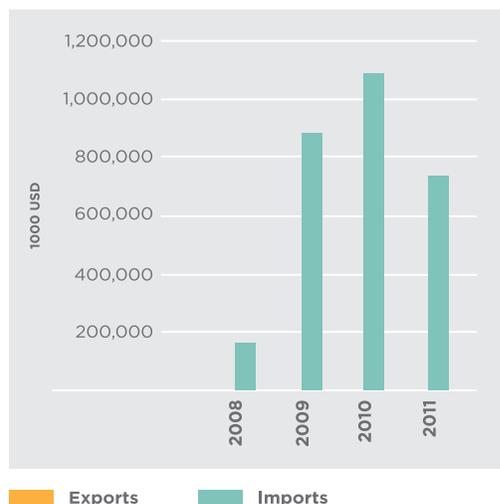
41. Afghanistan trade with Turkmenistan mirrors the pattern with Tajikistan, though imports from the former are another US\$1.3 Billion more. Trade between Afghanistan and Turkmenistan, along the Lapis Lazuli Route, with onward links to Azerbaijan, Georgia, and Turkey, can be expected to steadily grow in the coming years, especially once the TAPI natural gas pipeline is finalized. Afghanistan trades somewhat less with Uzbekistan (See Chart 17) by comparison, as exports are negligible while imports are decreasing (however data from 2012 forward are missing).

Chart 16. AFGHANISTAN TRADE WITH TURKMENISTAN



Source: World Integrated Trade Solution (WITS) – World Bank

Chart 17. AFGHANISTAN TRADE WITH UZBEKISTAN



Source: World Integrated Trade Solution (WITS) – World Bank

3.3 Emerging Trade Patterns

42. Overall an interesting trade picture for Afghanistan comes into greater focus. Compared to Central Asia-South Asia as a whole, it has a widespread trade imbalance of approximately US\$7.1 billion due to the fact that it exports only approximately US\$570 million worth of products per year while importing US\$7.6 billion. Because the composition of these exports are heavily agricultural, there is also a certain volatility inherent in Afghanistan's exports. Without an export base, this trade imbalance will likely grow.

43. Afghanistan in fact has a great deal it could potentially be exporting, but it continues to lack the infrastructure necessary for extracting its prodigious deposits of oil, gas, and minerals. Thus, short of increasing extraction, the only other viable economic strategy for Afghanistan at present lies in the transit sphere. This implies that construction of transport and energy corridors through Afghanistan must be a top policy priority, as well as the construction of Multi-Modal Inland Ports (MMIPs) at key intersections of cross-border transit.

44. For the region as a whole, implications for Central Asia-South Asia begin with the data-based rationale for increasing trade and cross-border investment. The trend of steadily increasing trade within the region and beyond it is positive, but in terms of volume of trade the region is still under performing compared to its potential.

45. For RECCA this means that the conference—through its deliberations, Regional Economic Growth and Stability: the Silk Road through Afghanistan, and follow-through implementation plan—has a substantial opportunity for augmenting these trends and facilitating deals for infrastructure project funding that lead to regional increases in trade, transit, and investment. By increasing volumes of these critical elements of cross-border economic exchange and in the process achieving a greater degree of regional economic integration, Afghanistan and its Central Asia-South Asian partners have a marked opportunity at RECCA to make commitments that ultimately lead to increased GDP growth, increased revenue, and increased jobs for each country in the region.

4.

FLAGSHIP PRIORITY PROJECTS FOR RECCA-VI

- 32 Overall Approach to Economic Integration
- 34 The Importance of Economic Viability
- 35 Illustrative Bankable Projects for RECCA-VI
- 35 Project #1: Multi-Modal Inland Ports
- 36 Project #2: Employment / Remittances in GCC +C5 States
- 37 Project #3: Energy PPP Projects
- 38 Project #4: Critical Feasibility Studies

4.1 Overall Approach to Economic Integration

46. Despite significant gains in infrastructure development from a low base in 2001, future plans for a regional infrastructure network can only be realized once a fully integrated approach to regional economic development has been carefully conceived, as evidenced by CAREC program. While Afghanistan was traditionally on the southern periphery of the Silk Road—which provided for an extensive trans-continental network that stretched from China through to Europe and North Africa—it is clear that well conceived public and private investments between 2015 and 2020 will in all likelihood serve to revitalize the former Silk Road as a primary conduit for international trade, while providing a revenue lifeline for Afghanistan. Such investment could in essence release latent economic capability and generate significant revenues to secure the core functions of state, at a time when the deleveraging of external assistance will otherwise have potentially devastating consequences.

47. This section outlines a modest number of flagship projects – based on fundamental economic and financial viability. *These projects are proposed precisely because they conform to the feasibility criteria established, and because they are considered vital in the current context.* Of critical importance, economic analysis indicates that the total return on investment of the individual projects is greater than the sum of their collective construction, once certain investments are grouped, prioritized, and sequenced to achieve maximal impact. It is therefore assumed that the principal goal of regional infrastructure development is to facilitate the spatial organization of economic activity as a catalyst for faster growth. The evidence is compelling.

- **Regional Cooperation Impact:** The ADB estimates that regional trade benefits in South Asia increase the Economic Rate of Return for related regional investments by 3.5% and further that the impact of infrastructure investment on productivity depends more on the size of a country's infrastructure network than on its level of development. (See ADB Institute, 2009);

- **Trade Cost Reduction Impacts:** A similar study estimates that the accumulated reduction in trade costs resulting from “infrastructure” and “communications” investment between 2010 - 2020 are 11.5 per cent and 12.1 per cent respectively, for Central Asia. (See ADB, “*Infrastructures for a Seamless Asia*,” p. 118);

- **Road Corridor Impacts:** A road network project in Kazakhstan aims to create a corridor throughout Kazakhstan, helping to link Uzbekistan and the Kyrgyz Republic with the Peoples Republic of China (PRC). The ADB calculates a GDP growth premium of 3.19 per cent of baseline GDP by 2015, with significant GDP gains to countries as far as EU25 (0.27 per cent) and the US (0.15 per cent). (ADB, “*Infrastructures for a Seamless Asia*,” p. 97);

- **Trade Related Income Impacts:** Regressing countries' income per person on their trade share (trade between countries) as well as their size (within-country trade) shows that the trade elasticity of income is about 1.4, that is, a 1% increase in the trade share on average raises a country's income per person by 1.4%. (ADB, Economics Working Paper No. 234). In Thailand, around 40% of survey respondents associated electricity with increases in income (Chatterjee et al. 2004). In India, poverty rates were lowest for households near good roads and with electricity, and highest for households with neither (ADB, 2004);

- **Trade Creation and Network Externalities:** Regional cooperation increases access to a wider selection of goods and services at a lower cost due to decreasing transaction costs. The main economic benefit of regional infrastructure therefore derives from the development of network externalities.

(ADB, 2010)

48. Project level analysis alone does not explicitly analyze an investment’s distributional impact although grouping investments within an “*anchor, ancillary and spinoff*” framework provides for a clearer understanding of upstream and downstream benefits. The projects outlined here have been selected because they conform to the criteria established and because they are projected to have a significant impact in the current context. Table 16 outlines different project impacts. They also leverage private capital and have one or more of the following types of impact:

Table 16

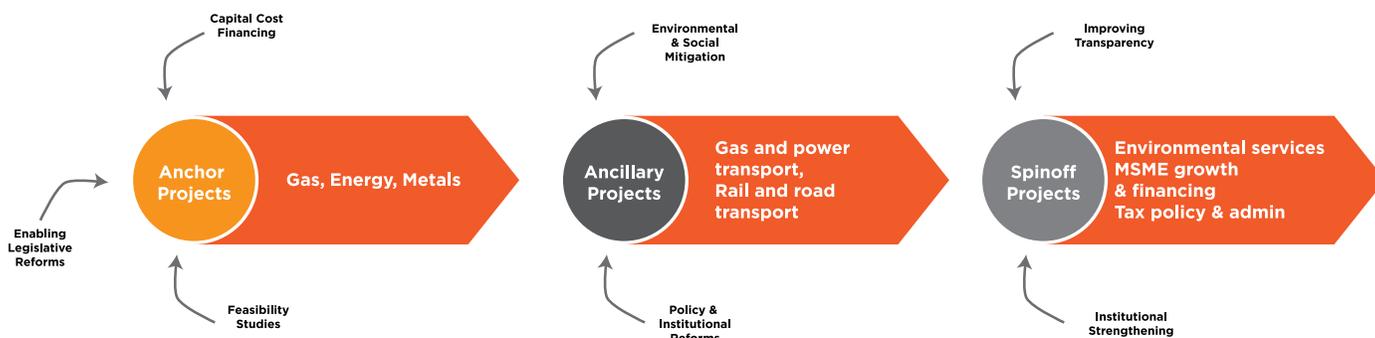
UNDERSTANDING DIFFERENT PROJECT IMPACTS

Nº	Impact	Characteristic
1	Indirect impacts	Anchor and ancillary projects spend money on upstream and downstream goods and services
2	Spillover Impacts	Anchor projects provide demand for the infrastructure services needed to operate and maintain the ancillary projects
3	Catalytic Impacts	Anchor and ancillary projects improve the productivity of local Micro to Small Medium Enterprises (MSMEs) allowing them to increase value addition
4	Imputed Impacts	Anchor projects yield net government revenues, allowing continued investment in infrastructure services

Source: Geopolicity Inc. *New Silk Road Economic Impact Assessment (EIA) 2011*

49. These findings suggest that the most impactful projects (on growth, trade, revenue, and jobs) leverage cross-border investments and markets and are integrated around anchor, ancillary, and spinoff projects, as outlined in Figure 2 below.

Figure 4. ANCHOR, ANCILLARY, AND SPINOFF GAINS OF INTEGRATION



4.2 The Importance of Economic Viability

50. A large number of projects that have been proposed in the past 5 to 10 years lack a clear understanding of overall economic impact or on the distributional impact of that investment on the real economy, jobs, and revenues. It is necessary for this to change, particularly as private equity models are beginning to emerge in Afghanistan and Central Asia-South Asian context. First, analysis confirms that infrastructure investment and development are strongly correlated.

51. Connective infrastructure reduces the economic distance between locations - the time and cost of trading between them - and thus links and expands markets. Afghanistan's future growth prospects are therefore heavily dependent upon regional cooperation within the Central Asia-South Asia trading context, that is its immediate trading partners.

52. While a sizable number of projects in Afghanistan have not had an economic impact assessment conducted, the World Bank and ADB always conduct economic and financial due diligence on proposed investments. In addition, in 2011 the US State Department / CENTCOM contracted Geopolicity Inc. to conduct a full economic impact of 15 major investment projects. Table 17 below provides Net Present Value (NPV) and Internal Rates of Return for key projects covered by RECCA in the past, and though these figures are illustrative, with a discount rate of 12 % adopted (*See Annex 3 for justification*), most projects meet the minimum hurdle rate to attract investment. These rates of return are provided from different sources.

Table 17
Selected EIRR and NPV of Transport Projects

Project Name	EIRR	NPV (US\$ Million)	Status
Afghanistan Ring Road Completion	17.5% - 19.1%	110 - 175	Inactive
Salang Tunnel Rehabilitation and By-pass	16%	15.51	Inactive
Afghanistan's East-West Road Corridor	N/A	N/A	
Afghanistan's North-South Road Corridor	18.4% - 24.7%	91.3	
Kabul-Jalalabad-Peshawar Expressway	27%	148.49	
Afghanistan Rail Plan	N/A	N/A	Active
Afghanistan-Pakistan Rail Links	18%	25.42	Inactive
Sherkhan Bandar-Herat Rail and Hairatan /Naibabad Land Port	13.3%	507.04	
Sheberghan Gas Fired Thermal Power Facility	13.1%	N/A	Active
CASA-1000	15.6%	440	Active
Turkmenistan - Afghanistan - Pakistan - India (TAPI)	16.8%	N/A	Active
Kokcha Multi-Purpose Dam	12.9%	N/A	
Kunar Basin Hydropower	12.9%	N/A	
Aynak Copper Mine	13.7%	N/A	Inactive
Hajigak Iron Ore Mine	13.7%	N/A	Inactive
Hairatan to Mazar-e-Sharif Railway Project	14.5%	35.5	
Mazar-e-Sharif-Dar-i-Suf Road Section	29.8%	79.68	
Bamyan-Yakawlang Road Section	20.7%	29.3	
Qaisar-Bala Murghab Road Project	18.8	199.5	Active
Road Network Development Project 1	19.0%	39.0	Active

Source: ADB, World Bank, and US (Geopolicity Inc.) estimates.

53. There needs to be a greater focus on investments that impact jobs in local economies. Indirect and induced employment calculations are therefore based on applying multipliers to direct employment generated as a result of investment, whereas catalytic employment is a function of economic growth impact,

and is inferred from an economic model. RECCA has used a simple input-output model to calculate catalytic employment and estimated indirect and induced employment multipliers for the key economic sectors, based on own elaboration of estimates and drawn from various sources.

4.3 Illustrative Bankable Projects for RECCA-VI

PROJECT # 1: MULTI-MODAL INLAND PORTS

Summary As dry ports, a Multi-Modal Inland Port consist of an inland cargo terminal from which railway and truck operators can accomplish their transport needs just like a traditional waterway port. MMIPs are proposed because high market delivery costs caused by fragmentation of supply chains, poor logistic service levels, and low levels of connectivity within the wider region prohibit Afghanistan from emerging as a trade and transit hub. MMIP's would provide a range of services, including (i) cargo consolidation and distribution (ii) temporary storage of containers (iii) customs clearance (iv) connectivity between formal transportation nodes (v) the agglomeration of institutions (vi) issuance of bill of lading in advance of clearance (vii) inventory management and potential pre-customs clearance also. Moreover, they could provide a stronger enabling environment for business, and perhaps be strategically linked to Special Economic Free Zones, as proposed.

Figure 5 ▶



Objective To facilitate increased trade and transit along regional corridors that pass through Afghanistan, by establishing inland cargo consolidation and distribution centers as a pivot of export-led growth and economic development.

Services Given the evolving corridor arrangement under CAREC, Lapis Lazuli Route and the so-called Garland Valley (Chabahar - Afghanistan), MMIPs need to be strategically located along long-standing routes of commerce, so as to provide a significant boost to trade and transit, imports and exports. MMIP facilities include the following: customs clearance services, on-site inspection service facilities, logistics and supply chain management, distribution centers, bulk-breaking / packing / loading services, free trade zone benefits, warehousing storage and consolidation of goods, maintenance of road and rail cargo carriers, office space, tech and telecommunications centers, and access to a range of other utilities and services.

Governance MMIPs must be based on a PPP arrangement, given the risk to private participation in particular. There is also no reason why the MMIPs could not be established as a Free Trade Zone (FTZ) also, to increasing exports, create employment opportunities and increasing hard currency reserves. Pre-feasibility and feasibility studies (which have not been undertaken) need to be conducted with a clear focus on private equity participation, implying clarity of PPP model, asset ownership, land, operations and maintenance, services, fee structures, trade volume and security arrangements.

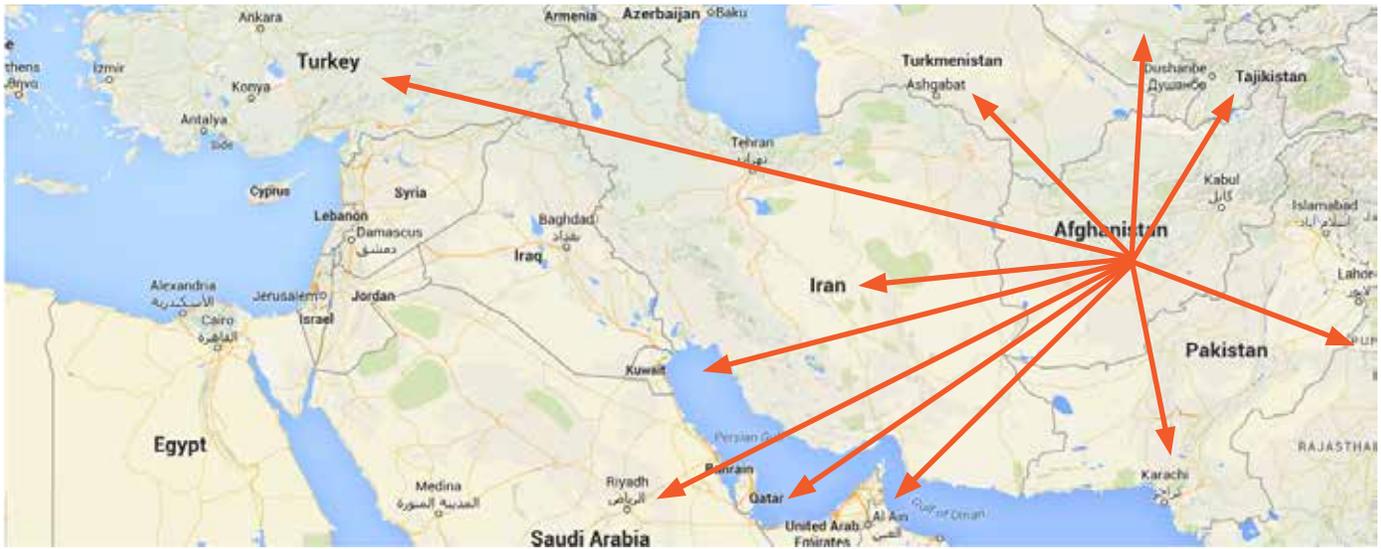
Location MMIPs should be located in Kabul, Jalalabad, Mazar-e-Sharif, Herat, and Zaranj or Delaram – for which Afghanistan is in the process of acquiring land. A variety of government ministries are supporting a coalition of Afghan business leaders to support a PPP for development and operation of two MMIPs to be located in Jalalabad and Kabul, as well as a Dry Port (i.e. cargo logistics hub) in Mazar-e-Sharif and a plain air cargo hub at Kabul International Airport. NATO bases could also be used for MMIPs.

Economic Impact Trade facilitations, increased trade flows and transit fees, improved competitiveness, jobs creation, and business development. As no feasibility studies have yet been conducted, this means the NPV and ERR have still to be conducted. However, dry ports funded by ADB, AfDB, and the World Bank have an ERR of between 15-22%.

Proposed Actions Commission a feasibility study assessing locations, functions, cost-structures, new present value, economic and financial rates of return, and a PPP model. Feasibility studies need to suggest locations based on Lapis Lazuli, Five Nations Railway and Garland Highway corridors.

Illustrative Bankable Projects for RECCA-VI

Figure 6



PROJECT # 2: EMPLOYMENT / REMITTANCES IN GCC + CS STATES

<p>Summary</p>	<p>Given the failing Afghanistan jobs market, and the need to increase capital inflows to shore up the economy, there is considerable upside potential for the Afghan workforce to benefit from the construction industry boom in Gulf States and Central Asia. Not only would increasing the numbers of economic migrants be advisable for remittances, it would also be advisable for skills development.</p> <p>The latest NRVA survey finds that international migration from Afghanistan to countries outside is predominantly dominated by young males with most of them moving to Iran (76%) followed by Pakistan (13%) and the Gulf States (8%). The survey also finds that for the year 2013, 107,000 persons of age 14 and older left the household to live and work abroad. However, this figure underestimates the number of emigrants because it does not take into account entire households who migrated abroad. Remittances into Afghanistan are extremely low compared to neighboring South Asian Countries, such as India and Pakistan. Nonetheless, from a lower base Afghanistan’s remittances from the Gulf State economies as a share of the total remittances have been significantly increasing from 2010 to 2014.</p>
<p>Objective</p>	<p>To place around 250,000 new recruits into short term itinerant employment in the Gulf States and Central Asia to boost the economy, bolster livelihoods, shore up the macro economy, and foster skills development.</p>
<p>Services</p>	<p>Unskilled, semi-skilled, and skilled workers placed into foreign labor markets.</p>
<p>Governance</p>	<p>MoLSAMD and MoFA will need to build capacity in order to facilitate labor market exchange, enforce the MoUs, support immigration and work placement, including dealing with complaints, while also promoting worker’s welfare.</p>
<p>Location</p>	<p>Gulf Cooperation Council (UAE, Qatar, KSA, Kuwait etc.) and Central Asian States (Turkmenistan, Tajikistan, Kyrgyz Republic, Uzbekistan and Kazakhstan)</p>
<p>Impact of Remittances on the Afghanistan Economy</p>	<p>Trade facilitations, increased trade flows and transit fees, improved competitiveness, jobs creation, and business development. As no feasibility studies have yet been conducted, this means the NPV and ERR have still to be conducted. However, dry ports funded by ADB, AfDB, and the World Bank have an ERR of between 15-22%.</p>
<p>Proposed Actions</p>	<p>Conclude Memorandum of Understanding with key GCC and Central Asian states, engage private recruitment companies and vocational training centers.</p>

Illustrative Bankable Projects for RECCA-VI

Figure 7



PROJECT # 3: ENERGY PPP PROJECTS

<p>Summary</p>	<p>The potential for private power generation in Afghanistan is substantial. It is necessary to increase supply to the various regional grids in operation in Afghanistan and across the wider Central Asia–South Asia Regional Electricity Market (CASAREM). Though CASA-1000 and TUTAP may be game changers on the power generation front, the energy deficit is set to continue.</p> <p>With the Public Private Partnership (PPP) law soon to be presented to the Cabinet, and with the IFC already establishing an IPP in Mazar, potentially generating up to 50 MW by 2017 (equating to around 30% of Afghanistan’s current indigenous power supply), the scope for developing and replicating IPP arrangements to all major urban centers in Afghanistan is compelling. Critical to near term success is establishing a financially viable project governance model that meets the needs of service expansion while maintaining sufficient profitability for the private partner to build and operate sustainable energy capacity.</p>
<p>Objective</p>	<p>To foster sustainable energy-based PPP projects in Afghanistan, leveraging the experience of regional states including India, Turkey, Pakistan, and UAE.</p>
<p>Services</p>	<p>Afghanistan only generates around 600 megawatts (MW) of electricity, mainly from hydropower, followed by fossil fuel and solar power. Da Afghanistan Breshna Sherkat (DABS) estimates that the country will need around 3,000 MW to meet its needs by 2020, implying the need for a fundamental up-shift in generation. Afghanistan’s power consumption per capita is among the lowest in the world at 195 kWh per capita in 2014, compared to 449 kWh in Pakistan and 684 kWh in India. Currently, only around 25-33% of the Afghanistan population has access to electricity, though there is a large disparity with 70% of the Kabul population having 24 hours access. Similarly, in Pakistan the demand for electricity has continued to outpace the growth rate of the economy and is expected to more than double in 10 years to 45,000MW.</p>
<p>Governance</p>	<p>Energy PPPs are notoriously difficult to govern in a poorly regulated market, and with market, macro-economic, and currency related risks, extremely experienced transaction advisers are required to guarantee that each PPP is properly established. Of substantial importance, the economic and financial sustainability analysis must be based on realistic assumptions (including full project cycle costs, affordability limits, risks, and their costs and optimal value-for-money methods of delivery). Measures to protect private operators during periods of force majeure also need to be established, as does government regulatory oversight and enforcement of service delivery standards.</p>
<p>Location</p>	<p>All major primary and secondary market cities (notably Kandahar) as well as smaller urban centers likely not to benefit from CASA-1000 and TUTAP.</p>
<p>Economic Impact</p>	<p>The economic impact of the proposed set of IPP projects has still to be calculated, though the benefits of mobilizing private capital and powering households is likely to be considerable. Comparative IPPs have an ERR of between 14-24%, though sensitivity analysis is required to assess risks.</p>
<p>Proposed Actions</p>	<p>Identify viable PPP models (as reference models - including hidden costs due to flawed policy and poor execution) and power purchase agreements, and identify bankable PPP energy projects for the proposed investment road shows.</p>

Illustrative Bankable Projects for RECCA-VI

Figure 8



PROJECT # 4: CRITICAL FEASIBILITY STUDIES

<p>Summary</p>	<p>There are a whole host of feasibility studies that have never been conducted, and now that the PPP law is being presented to cabinet for approval, important PPP investments are under discussion, capable of being a game changer in Afghanistan’s complex economic transition. However the process of conducting feasibility studies for PPP and other projects is in many ways far more complex than conducting feasibility studies for grant based projects, and the legal and regulatory environment is much more challenging. Moreover, most feasibility studies have only been undertaken once an external donor has initiated or been attracted to a particular project, meaning that many critical studies have yet to be undertaken. In particular, given the new Lapis Lazuli and Garland Valley corridors, it has never been more critical to conduct such studies in order to assess the viability of strategic investments, linking Afghanistan markets to wider regional markets (Central Asia, Gulf States, Pakistan (Gwadar) and Iran (Chabahar).</p>
<p>Objective</p>	<p>To undertake feasibility studies to assist in the establishment of viable PPP models for different regional cooperation sectors, with a focus on securing sustainable service delivery while being sufficiently profitable for the private sector, implying minimizing risks.</p>
<p>Services</p>	<p>The following feasibility studies are seeking financing, and would be conducted over a period of 8-12 months, and the results would be presented at the next RECCA conference as well as being posted on the RECCA Virtual Commission website:</p> <ul style="list-style-type: none"> • Kandahar IPP; • Extension of the Rail / Road Lines between Chaman and Kandahar (Feasibility Study); • Railway between Sheberghan and Herat, part of the Five Nations Railway Corridor (Feasibility Study); • Multi-Modal Inland Ports (MMIP) in three locations: 1) along the Chabahar-Zaranj-Herat-Kandahar; 2) Kabul - Torkham corridor; and 3) in Aqina or Torghuni (Feasibility Studies).
<p>Governance</p>	<p>The various feasibility studies outlined here would be coordinated with MoFA, but would be overseen by the relevant sector Ministry, and procured either through the Government procurement system or through an independent financier. For feasibility studies involving regional partners, a joint working group would be established to oversee the process and deliberate on the results and next steps.</p>
<p>Location</p>	<p>Various, see above.</p>
<p>Economic Impact</p>	<p>While there is no direct impact of conducting feasibility studies in these areas, the studies will be used to develop bankable investment projects for the proposed road shows. As a result, not only will these studies fill an important gap in analysis, they will contribute to attracting financing, should the results prove to be acceptable.</p>
<p>Proposed Actions</p>	<p>Sector Ministries develop terms of reference for the various studies, sharing them across their networks, before securing financing (national budget, regional partners, cooperation partner) and procuring a competent contractor.</p>

5.

OTHER REGIONAL INVESTMENTS & POLICY PRIORITIES

- 41 Project #5: Five Nations Railway
- 42 Project #6: Lapis Lazuli Transit Trade and Transport Cooperation (Lapis Lazuli Route)
- 43 Project #7: Joint Regional Chamber of Commerce and Industries (JRCCI)
- 44 Project #8: AKT Agro Food Industry Development, UNDP
- 45 Project #9: Kyrgyz Republic-Tajikistan-Afghanistan-Iran (KTAI)

5.1 Other Regional Investments & Policy Priorities

54. In addition to the viable projects outlined above, there are a number of other high priority regional investments and policies that are deserving of investment and greater support.

These include, but are not limited to:

- The Lapis Lazuli Route provides improved trade and transit connectivity between Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey;
- Investments in the Five Nations Railway (linking China and Iran via Afghanistan, Tajikistan, and Kyrgyz Republic);
- Establishment of a Joint and Regional Chamber of Commerce and Industries;
- Afghanistan, Kyrgyz Republic, and Tajikistan (AKT) Agro Food Industry Development; and
- Kyrgyz Republic-Tajikistan-Afghanistan-Iran (KTAI)

55. While projects such as CASA-1000, TAPI, TUTAP, and others will have a much larger impact on growth in regional energy and trade, these project areas have been identified because they conform to the criteria selected, and because they can be undertaken with more modest investment. Given the relative volatility in world and regional markets, it is important to focus on regional investments and policies that have an immediate impact as well as add value to existing systems.

56. These projects directly support the objectives of the “Heart of Asia” Istanbul Process, and in particular the Trade, Commerce, and Investment Confidence Building Measure (CBM) and Infrastructure CBM. As the CBM Implementation Plans are updated, the projects outlined here would figure heavily, as they are more viable in terms of “lower barrier to entry” implementation than considerable anchor projects (e.g. mining).

57. These priorities have been established for RECCA-VI as they reflect both regional / governance / policy cooperation. They also provide for pragmatic investments with a considerable upside gain.

Illustrative Bankable Projects for RECCA-VI

Figure 9



PROJECT # 5: FIVE NATIONS RAILWAY

Summary

The proposed Five Nations Railway runs from China to Iran through Kyrgyz Republic, Tajikistan, and Afghanistan at a length of 2,100 km. While the total cost is expected to exceed US\$2 billion – the line would provide connectivity between China, Kyrgyz Republic, Tajikistan, Afghanistan, and Iran.

Some 1,148 km of the line will pass through six provinces of Afghanistan including Kunduz, Balk, Jawozjan, Faryab, Badghis, and Herat. Funded by the ADB, the project would also provide access to the sea ports of Iran (Chabahar and Bandar Abbas), providing considerable opportunity for trade expansion. The Railway would also connect China and CIS countries to Europe through Iran and Turkey.

ADB, World Bank, the Bank of China, and the US are international partners in this important project. The feasibility study, including a preliminary design for 654 Km passing through Afghanistan, is ongoing and negotiations on financing are moving forward.

Current Status Update: The Five Nations Railway was discussed at the 25th meeting of the ECO Regional Planning Council (RPC) held in Tehran, Iran on 1-5 March, 2015 and High Authorities met regarding the Construction of China-Kyrgyz Republic-Tajikistan-Afghanistan to Iran railway line in Dushanbe, Tajikistan on 8-9 December, 2014.

Objective

To facilitate and enhance the business relations and promote regional stability and corporations.

Services

Transport and trade facilitation. The Five Nations railway will expand interconnectivity between the partners, opening up new opportunities for resource corridors and increasing international trade and transit.

Governance

The project falls under multiple institutions, as follows: Government of Afghanistan (Ministry of Public Works, Ministry of Transport, Ministry of Finance, and Ministry of Commerce and Industries); other regional governments (Turkmenistan, Tajikistan, Iran, Kyrgyz Republic, and China); and international partners (ADB, World Bank, Bank of China, and the US).

Location

China, Kyrgyz Republic, Tajikistan, Afghanistan, and Iran

Economic Impact

While the feasibility studies for different sections are ongoing, economic Internal Rates of Return on similar railway projects in Afghanistan and the region range from 14% to 25% or more. The wider economic impact on trade and transit would however be considerable, as would opportunities to invest in ancillary and spinoff projects.

Proposed Actions

There is an urgent need to secure the commitment (through negotiation) with Tajikistan and to enter into discussion with potential financing partners for the Afghanistan section of the project.

Short-term (6-12 months):

Feasibility study and preliminary design of 654 km railway line from total 1148 km, for the section passing through Afghanistan, will be completed in less than a year.

Medium-Term (1-3 years):

Construction of the Afghanistan section (1148 km) of the Five Nations railway project will be completed within three years.

Illustrative Bankable Projects for RECCA-VI

Figure 10



PROJECT # 6: LAPIS LAZULI TRANSIT TRADE AND TRANSPORT COOPERATION (LAPIS LAZULI ROUTE)

<p>Summary</p>	<p>The <i>Lapis Lazuli Route</i> is proposed as a critical transit and trade cooperation arrangement among Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey, intended to reduce barriers for transit and trade and develop a Custom Integration Procedure in the region.</p> <p>The corridor connects Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey via road and rail, providing an appropriate transit trade route across Central Asia, the Caucasus, the Balkans, and Central Europe, while also connecting South Asia to European countries. The Lapis Lazuli begins from Aqina in northern Faryab province and Torghundi in western Herat province of Afghanistan, and continues to Turkmenbashi of Turkmenistan; after passing the Caspian Sea, it continues on to Baku, the Azerbaijan’s capital, and then connects Baku to Tbilisi, Georgia’s capital, as well as to the ports of Poti and Batumi of Georgia; finally it connects on to the cities of Kars and Istanbul of Turkey, ending in Europe.</p> <p>The “Lapis Lazuli” is derived from the historic export route that Afghanistan’s lapis lazuli and other semiprecious stones were exported along to the Caucasus, Russia, the Balkans, Europe, and North of Africa over 2000 years ago.</p>
<p>Objective</p>	<p>To remove trade barriers, harmonize customs systems, and improve trade and transit between Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey. The initiative will need to link up with other investment plans to maximize multipliers and develop a more effective route for exports and imports.</p>
<p>Services</p>	<p>By operationalizing the modern Lapis Lazuli Route, trade barriers will be reduced and joint customs operations will be developed, facilitating greater trade and transit, lowering transaction costs, and expanding market access. Key services created by the corridor therefore include:</p> <ul style="list-style-type: none"> • Lowered trade barriers; • Reduced transaction costs; • Improved cross-border governance through harmonization; • Increased trade and transit; and, • Enhanced regional cooperation.
<p>Governance</p>	<p>The corridor would be governed by the five parties, and would require partite agreement and perhaps a secretariat, to guarantee operations and maintenance across borders. The project could be linked with the customs modernization process and the adoption of ACYCUDA.</p>
<p>Location</p>	<p>Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey</p>
<p>Economic Impact</p>	<p>The impact of this project will be considerable not only because most of the infrastructure is already in place, (therefore value addition) but also because most of the investment will focus on improving policy and governance, not on infrastructure. ERR and NPV still need to be established, but with a discount rate applied at 12% the overall returns are expected to be positive.</p>
<p>Proposed Actions</p>	<p>The finances for construction of Afghanistan related infrastructure needs to be sourced, following feasibility studies and consideration of long term infrastructure maintenance (O&M). Other actions include (i) Improvement of road conditions and transit facilities along major highways (ii) expanding rail links between Afghanistan and Turkey and beyond (iii) improving MMIP in the Lapis Lazuli Route countries and (iv) undertake a Cost-Benefit Analysis on establishing Cross-Border Economic (Tax Free) Zones between the Lapis Lazuli Route countries.</p>

Illustrative Bankable Projects for RECCA-VI

Figure 11



PROJECT # 7: JOINT REGIONAL CHAMBER OF COMMERCE AND INDUSTRIES (JRCCI)

Summary	<p>One of the most effective ways to improve regional economic cooperation is by focusing on connecting business across the region. This fosters improved collaboration, lays the foundation for joint ventures and partnerships, and engenders technological transfer and information exchange. The establishment of the JRCCI by signing MoUs between 12 Partner organizations will provide the basis for coordination.</p> <p>The Joint Chamber will have a dedicated secretariat alongside panels to develop a private sector agenda for promoting regional Trade and Investment. The project will bring together national Chamber of Commerce and Industries from all Participating Countries, as well as Ministries of Commerce and Industries and Ministries of Finance. The JRCCI will work with ECO, AFTA, CAREC, and SAARC.</p> <p>The Concept Note has been prepared and shared with the board members of ACCI, and the Afghanistan-Pakistan Joint Chamber has been established. The MOU has been signed with FICCI, and preparation has been made for establishment of the Afghanistan-India Joint Chamber of Commerce and Industries. An MOU has been signed with CII, the Afghanistan-Iran JCCI has been established in Iran, and a Kabul Branch will be opened soon. Acquisition of SAARC, CCI membership, and ICCIA membership are underway.</p>
Objective	To enhance economic cooperation and integration through the establishment of a Joint Regional chamber of Commerce between Afghanistan and surrounding Countries.
Services	To provide a common platform to bring commercial and industrial private sector parties together to forge strategic alliances, drive innovation, and spur growth.
Governance	The overall JRCCI would be implemented by the Afghanistan Chamber of Commerce and Industries (ACCI) and supported by a secretariat. The project is in line with and supports the Heart of Asia Istanbul Process Trade, Commerce, and Investment CBM.
Location	Major Afghanistan cities with region wide link-ups.
Economic Impact	At an estimated cost of US\$6.1 million, it is assumed that there will be a significant upside in generating increased foreign direct investment through joint ventures and strategic trade and industrial partnerships.
Proposed Actions	<p>The project is seeking financial support as well as diplomatic support from regional Ministries of Foreign Affairs.</p> <p>Short-term (6-12 months): Establishment of Afghanistan-India Joint Chamber of Commerce. Establishment of Afghanistan-Iran Joint Chamber of Commerce (Kabul Chapter). Establishment of an ACCI representation office in Tajikistan. Signing of the MOU with Uzbekistan CCI for the establishment of an Afghanistan-Uzbekistan CCI.</p> <p>Medium-Term (1-3 years): Formation of the Organizational Structure for the Regional Chamber of Commerce and Industries through selection of strong board of director with the help of established Joint chambers of commerce and industries.</p>

Illustrative Bankable Projects for RECCA-VI

PROJECT # 8: AKT AGRO FOOD INDUSTRY DEVELOPMENT, UNDP

Summary

As a result of the keen interest expressed by regional governments and the international donor community, in conformity with its mandate and comparative advantage the UNDP has initiated a project to support inclusive growth in three countries in Central Asia: Afghanistan, Kyrgyz Republic, and Tajikistan (AKT).

The concept outlines the rationale for a pilot replicable tripartite consortium (“Consortium”) to develop the agro-food industry potential of the AKT, which would strengthen complementarities integrating value chains. A central goal of this program is to leverage regional cooperation in Central Asia and reinforce each country’s commitment to implement recommendations adopted during successive international conferences on Afghanistan, from Bonn 2001 to Tokyo 2012.

In January 2015, a roundtable meeting was held in Istanbul on the Tripartite Agro-Food Industry Consortium. High profile participants from governments, the private sector, NGOs, UNDP, and other international organizations from AKT countries and Turkey, as well as international consultants, have attended the meetings.

The consensus among the stakeholders and the relevancy and potential benefits of the Consortium were validated. Furthermore, key inputs were provided by the stakeholders for the design of the feasibility study, which is being financed by UNDP and the Government of Turkey.

Figure 12 ▶



Objective

To propose three feasible agro-food industry products among pre-selected products for inclusive value chain development, with justifications, respective action plans, and budgets; by presenting the features of respective value chains from primary agricultural production to the final consumer, and ensuring development of the value chains is feasible in terms of realities, opportunities, and dynamics of each AKT market compared to that of international markets), especially feasible for potential export markets).

Services

The pre-selection process has started, and inputs of different stakeholders such as governments, institutions, private sector, and civil society from AKT countries—plus from international agencies experts, and consultants—were collected throughout a participatory process. The National Highway Fund (FVN) sub-sectors were defined as the pre-selected sectors for the feasibility study in general, and a range of products were presented during the Roundtable Meeting on 22 January 2015 as potential pre-selected products within each sub-sector (to be studied in the feasibility stage).

The criteria for their selection were: (i) ensuring food security and nutrition, (ii) labor intensive sectors with potential value chains, (iii) potential to lead into greater economic, social, and regional economic integration within Central Asia-South Asia, (iv) reducing poverty, and (v) potential to develop into an integrated sustainable model that is replicable and scalable.

Governance

The AKT Tripartite Consortium

Location

Kyrgyz Republic, Afghanistan, and Tajikistan

Economic Impact

Three agro food products (fruits, nuts, and vegetables) will be identified for value chain development, increasing profitability, and expanding market access.

Proposed Actions

AKT Consortium review of feasibility study findings and position support for next phase value-chain development, allowing for a more coordinated approach to regional agricultural product development.

Illustrative Bankable Projects for RECCA-VI

Figure 13



PROJECT # 9: KYRGYZ REPUBLIC-TAJIKISTAN-AFGHANISTAN-IRAN (KTAI) PROJECT

Summary	<p>Iranian, Afghan and Tajik presidents signed an agreement to develop the Kyrgyz Republic – Tajikistan - Afghanistan-Iran (KTAI) railway project during the fifth trilateral summit in Dushanbe on March 25 2012. A working group has been established to undertake the necessary preparation.</p> <p>Iran’s Economic Cooperation Organization (ECO) is looking to co-ordinate the plans being developed by various railway agencies in Central Asia around the KTAI Rail Route, which passes through Afghanistan and connects Kyrgyz Republic to Iran via Tajikistan and Afghanistan. The 3rd Meeting of the KTAI High level Working Group (HLWG) of the Road Transport Corridor was held on 27th October 2014 in the ECO Secretariat in Tehran. All member states participated, as well as delegations of the ECO Secretariat and IRU. The Meeting agreed that TIR system would be used as the transit system for the corridor and recommended that the free transit system should be implemented along this corridor to enable efficient governance. The HLWG approved the Terms of Reference (TOR), prepared by the ECO Secretariat, for field study along this Corridor. The next HLWG will be held in Republic of Tajikistan in October/November 2015.</p>
Objective	<p>To enhance transit trade among the member states by promoting and developing transport corridors between the Kyrgyz Republic-Tajikistan-Afghanistan-Iran based on the positive experience of the Silk Road Truck Caravan-2010. In Afghanistan, it will be essential to construct a Ring Road including Herat-Mazar-e-Sharif (Qaisar Laman), at an estimated cost of US\$100 million.</p>
Services	<p>The project can ensure connection of southeast Asia, Central Asia, China and Europe. Other countries can also benefit from the infrastructure. The project would increase trade and transit capacities, trade volumes and it is one of a number of projects indicated in the ECO Railway Network Development Plan.</p>
Governance	<p>The corridor is being coordinated by the ECO High Level Working Group. The Transit Transport Framework Agreement (TTFA) is ECO’s basic document in the transport sector; TTFA entered into force in 2006 and eight out of ten member states are contracting parties to TTFA.</p>
Location	<p>Kyrgyz Republic, Tajikistan, Afghanistan, and Iran</p>
Economic Impact	<p>No economic feasibility study has been undertaken but the considerable interest in the project, leveraging cross-border multipliers, are expected to be both positive and considerable. This rail corridor would be a game changer for northern Afghanistan and would allow commodities to move across Central Asia into Iran and potentially onwards to the Gulf States and Europe.</p>
Proposed Actions	<p>The results of this corridor field study are critical – though the proposed Ring Road will be equally important if Afghanistan is to leverage considerable economic benefit. Constructing the two major provinces of Afghanistan will form a critical ancillary investment, with considerable spin off investments. Though there has been progress, contract issues have delayed progress and these issues need to be overcome. The ADB and Government of Afghanistan are financing this project, which must link well with the overall KTAI investment. The results of the corridor field study will also be critical to determining overall impact.</p>

6.

RECCA IMPLEMENTATION ARRANGEMENTS

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6.1 Introduction

58. Rather than focusing on the quality of its plans and policy documents—or even the quality of its forums involving government, business, and civil society leaders—the chief measure of success for the RECCA involves the level of implementation for the RECCA commitments made, including the extent to which people and governments in the region receive tangible economic, social, and political benefits. In this sense, annual RECCA gatherings (*see two proposed formations below*) should further implement the Regional Economic Growth and Stability framework for the region through comprehensive progress reviews, updating of strategy and policy frameworks, addressing implementation bottlenecks, and renewing a political commitment at the highest level to a vision of shared peace and prosperity in the region through cross-border commerce and communications.

Establishment of a Virtual RECCA Commission

59. The Government of Afghanistan is considering the establishment of a RECCA Commission, headed by a Commissioner with the rank of Minister, to provide strategic leadership in promoting improved regional economic cooperation. The role of the Commission would be to act as a focal point for regional cooperation, both generating and coordinating developmental projects that are regional in nature, while fostering an appropriate political climate to improve implementation.

60. Comprised of senior (ministerial-level) representatives within South, Central, and Southwest Asia, the Commissioners would assume chief responsibility for guiding follow-up to annual RECCA meeting commitments in their respective countries, as well supporting specific regional RECCA strategy implementation instruments such as the Road Show, Infrastructure Fund, and Results Framework. The Commission would be supported by a Secretariat led by the new Deputy Minister of Afghanistan Foreign Affairs for Economic Cooperation.

61. Not only would the RECCA Commission develop and maintain day-to-day relationships with all relevant stakeholders, including governments, international organizations, international financial institutions, regional organizations, sovereign wealth funds, civil society and the private sector etc., it would also provide an informational and exchange platform and generate investment ideas with the private sector.

The RECCA Commission would therefore:

- Represent Central Asia-South Asia participant interests in Afghanistan;
- Monitor and report on regional activities and initiatives;
- Provide leadership in regional economic cooperation;
- Foster a regional perspective in relation to donor assistance;
- Increase dialogue with sovereign wealth funds and private equity partners;
- Support increased engagement with the private sector and civil society;
- Undertake critical work not picked up elsewhere.

62. It is the responsibility of the Cabinet to take the decision to establish the RECCA Commission, as this would be the structure supporting the RECCA platform and process. If however at some point there was consensus to evolve the national Commission into a RECCA Council, this would need to be agreed by RECCA participants, given the direct role they would play in its success. If a Council is to be eventually established, a revolving chair arrangement is foreseen, co-chaired with the Minister of Foreign Affairs.

Annual Commission Meetings

63. Holding RECCA conferences every 2 years makes little sense, as it undermines continuity and creates a disconnect between the day-to-day work ongoing and the actual RECCA conference event. It is proposed that RECCA be held every year, in coordination with the Senior Officials Meeting (SOM), and that it be re-named RECCA 2015, RECCA 2016 not RECCA V or RECCA VI. Meetings would continue to be held in regional capitals.

RECCA Board

64. To support the work of the RECCA Commission, it is suggested to establish a National RECCA Board including government, private sector and civil society representatives to provide public / private steerage to regional economic cooperation and investment.

RECCA Strategy and Annual Work Program

65. While attempts to build up a heavy institution must be resisted, the establishment of a RECCA Strategy and Annual Work Program would provide a greater focus on outcomes and impact. This would be established by the Directorate General for Economic Cooperation in the Ministry of Foreign Affairs, or if a Commission is established, by the Commission itself. The strategy would focus on impact and attainment of Key Performance Indicators. The RECCA strategy would be presented at RECCA 2016 (VII) and supported by an annual work plan.

Generation of Bankable Projects

66. A project is bankable when financiers or lenders are willing to finance it. Normally bankable projects are developed by the financing institution or private sector directly. However there are many important projects such as MMIPs and energy projects (such as the Mazar Independent Power Plant) that need to be marketed by Government as PPPs, operating through Power Purchase Agreements (PPAs). As the majority of PPPs are funded on a project-finance basis, a Special Purpose Vehicle (SPV) is established to ring-fence revenues and debt liabilities. Furthermore, as many PPPs are funded on a corporate basis, a number of sponsors of the PPP company.

67. Given the potential financing risks that many projects take - resulting from overly optimistic

revenue flows, higher construction and running costs as well as interest and currency risks - capacity for assessing the Net Present Value, Internal Rate of Return and other analysis is needed, based on feasibility studies and transaction advisory support. Moreover, given the need to promote the private sector, model bankable projects must now be developed for replication across a number of key sectors including power generation, inland ports and transport etc. The RECCA Commission would support the development of model bankable projects working with the Ministry of Finance and sector Ministries, as well as IFIs, with link ups with:

- The **Private Infrastructure Development Group (PIDG)** mobilizes private sector investment to assist developing countries in providing infrastructure vital to boosting their economic growth, and combating poverty;³

- The **Public-Private Infrastructure Advisory Facility (PPIAF)**, which is a multi-donor trust fund providing technical assistance to governments in developing countries in support of the enabling environment conducive to private investment. This includes the necessary policies, laws, regulations, institutions, and government capacity. PPIAF also supports governments to develop specific infrastructure projects with private sector participation;⁴

- **World Bank Global Infrastructure Facility (GIF):** The newly established GIF is focused on expanding the universe of infrastructure projects that have the potential to mobilize private investment, through support across the project preparation and transaction process, to include infrastructure investments in power, transport, water and sanitation.⁵

68. Emphasizing bankable projects that can demonstrate progress in 12-18 months and are scalable in the next 2-3 years, the Regional Investment Road Show will be planned in the Gulf States (UAE and KSA), India, China, and with several of Afghanistan's immediate neighbors. Particular attention will be given to showcasing the tangible returns on investment for Afghanistan's neighbors from Regional Economic Growth and Stability flagship projects in the areas of regional transport, regional energy, and regional trade and private sector development, that can serve as the connective tissue for wider regional economic integration efforts in Central-South Asia, Middle East and Caucasus.

³ See <http://www.pidg.org/>

⁴ www.ppiaf.org

⁵ <http://www.worldbank.org/en/programs/global-infrastructure-facility>

Investment Selection Criteria

69. Any project to be selected by RECCA must be based on clear investment criteria, otherwise the long-term sustainability of the project will be compromised. Furthermore, if the private sector is to emerge as the champion of growth, making sure that project governance, ownership, cash flows, positive net present value and rates of return are critical factors of bankability. RECCA project selection criteria are as follows:

- Must be bankable (i.e. able to attract financier);
- Must have demonstrable impact on growth in trade, transit or extractives;
- Must have proper Project Management and Governance Arrangements in place;
- Must encourage private equity participation / private sector development;
- Must have sufficient cash-flows and positive NPV and Internal Rate of Return above the opportunity cost of capital;
- Can be implemented in 12-24 months;
- Must be regional in nature; and,
- Must have a clear risk management and mitigation plan.

Investment Road Shows

70. MoFA has decided - through its Economic Attaches - and in coordination with its sector Ministries, to initiate a number of investment road-shows to showcase significant and lucrative investment opportunities in Afghanistan, based on bankable projects that have been developed. The road shows will be widely attended by private sector interests and sovereign wealth funds, providing an opportunity to diversify investment interests, and to overcome the deficit in infrastructure financing for critical anchor, ancillary, and spinoff projects.

Project Portal

71. A dedicated RECCA website will be developed, providing up-to-date details on regional cooperation projects, including status, performance, feasibility studies, economic impact assessments, and contract details including for the private sector.

RECCA Cooperation with the Istanbul Process

72. Through the RECCA Regional Economic Cooperation Commission and Secretariat, progress updates will be provided to Istanbul Process Ministerial and Senior Officials Meetings for the two Istanbul Process confidence-building measures (CBMs) on Trade, Commerce, & Investment and Regional Infrastructure. This will help to ensure effective coordination, monitoring, and sharing of human, technical, and financial resources between RECCA and the Istanbul Process.

RECCA Cooperation with Self-Reliance for Mutual Accountability Framework

73. Through the RECCA secretariat, progress updates on regional economic priorities of the Regional Economic Growth and Stability framework will be provided to based on principles defined through Tokyo Mutual Accountability Framework (TMAF) Ministerial and Senior Officials Meetings. This will help to ensure effective coordination, monitoring, and sharing of human, technical, and financial resources between the RECCA and Self-Reliance for Mutual Accountability Framework (SRMAF).

RECCA & Other Regional Cooperation Initiatives

74. Through the RECCA secretariat, progress updates on regional economic priorities of the Regional Economic Growth and Stability will be provided to regularly to senior-level meetings of the CAREC, SAARC, SCO, ECO, and other regional cooperation initiatives. This will help to ensure effective coordination, monitoring, and sharing of human, technical, and financial resources within the region.

Monitoring - Results Framework

75. The Results Framework for Regional Investment Projects and Priority Policies will serve as the main tracking tool for progress appraisal between RECCA meetings. Key Performance Indicators (KPIs) will be defined for all individual investment projects and priority policies agreed to at a RECCA meeting. The Commission will keep this updates and this will be posted on the website and project portal, and an early Results Framework is provided in Annex 1.

7.

RECCA PROCESS & PROJECT STOCKTAKING

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7.1 Introduction

76. Since its foundation in 2005 RECCA has provided an important platform for regional economic cooperation. With Afghanistan balanced between a number of regional trade bodies, RECCA was established to provide a particular focus on economic cooperation linkages between the five Central Asia states, Afghanistan, Pakistan, and Iran. Outside of the regional energy context - where energy integration has considerable potential - a focus on trade transit, extractives, and governance would yield considerable economic and employment returns for all regional players, including China, India, Russia, and the GCC. As a result, RECCA has worked to:

- Facilitate implementation of a select number of high impact regional economic cooperation investment projects;
- Maximize inter-regional trade, including with and through Afghanistan;
- Identify a series of economic policy priorities;
- Create a regional energy market;
- Facilitate trade and transit routes;
- Harmonize customs and borders routines; and,
- Expand markets and market access for public and private investors.

77. Since 2008, inter-regional trade has increased by 49%, the average costs of crossing have been substantially reduced, and Afghanistan has gone from 5% to 30% electrification since 2001. Despite political problems and insecurity, a number of considerable anchor projects (mining, CASA-1000, TAPI, TUTAP etc.) are beginning to progress, and road, resource, and railway corridors have shown considerable promise. However, overall progress on key policy and governance reforms has been slow, and many critical regional projects have still to be financed, undermining both regional and Afghanistan growth prospects.

7.2 RECCA Capacity & Process Bottlenecks

78. In order for RECCA to be consolidated as a more effective platform to promote regional economic cooperation, key structural constraints are outlined below:

- **RECCA has been a One-Off conference with limited follow up:** While RECCA has no formal secretariat and does not constitute an authorizing environment for project investment, currently there is no linkage between economic cooperation investment decisions and the conference itself. It appears logical that RECCA can assist in unblocking investments by (i) providing policy and diplomatic leverage (ii) following up on core recommendations made through declarations and (iii) strengthening the prioritization of investments by being clear on the emerging investment context and upcoming opportunities;

- **RECCA is not an institution and it has no Secretariat:** While RECCA has been established as a consultative platform, and though it does not constitute a trade-body grouping in any sense, lack of core capacities (i.e. to initiate feasibility studies, to report on progress, and to guide investors) has undermined its intended impact as a key source of analysis and investment insight;

- **Afghanistan straddles numerous regional trade groupings:** Afghanistan falls between a number of different trade groupings, including the Economic Cooperation Organization (ECO), South Asian Association for Regional Cooperation (SAARC), Shanghai Cooperation Organization (SCO), Organization of Islamic Conference (OIC) and Central Asia Regional Economic Cooperation (CAREC). As a result, analysis of trade, transit, and economic cooperation patterns and flows has been dependent on one-off studies, undermining time series analysis to strengthen policy formulation and investment financing;

- **Investment prioritization has been weak:** Prior RECCA conferences forwarded a list of mega projects, many of which will take decades to come to reality, and many of which are unlikely to be financed in the current context. There is a need to focus on actionable investments that can actually be financed, because they are feasible i.e. bankable, not just because they are desirable;

- **Lack of Up-to-Date Economic, Trade, and Investment Analysis:** Despite the rapidly evolving regional cooperation and investment environment, RECCA has not provided participants with up-to-date information and analysis, undermining consensus and coordination within the Government of Afghanistan. Moreover, the vast majority of projects previously proposed lack strong economic and financial rate of return analysis, and there are no approved metrics for assessing the multiplier effect of an investment on jobs creation;

- **No capacity to initiate critical feasibility studies:**

There are a whole host of projects that have been stalled, pending the initiation and completion of feasibility studies. Though IFIs undertake feasibility studies prior to committing finances, there are many worthwhile and profitable projects not being targeted (such as the proposed Multi-Modal Inland Ports), and RECCA could assist in undertaking these studies and making the results public;

- **RECCA has not been linked to investment Road Shows:**

Investment Road Shows have never been undertaken, largely because bankable projects were not prepared, and because the Public Private Partnership process had no legal framework in place. The proposed approach would change that, turning RECCA into a more cogent capability to identify profitable opportunities and attract financiers, and engaging the economic attaches in the Ministry of Foreign Affairs more strongly;

- **Project funding overly focused on traditional IFIs and not private capital:**

RECCA related projects have been largely financed through traditional mechanisms such as the IFIs. There is no structure in place to conduct feasibility studies, prepare bankable projects, and market these projects to potential sovereign and private partners, though this mode of funding is set to increase given lower external flows and lack of Government discretionary finance;

- **Progress and impact monitoring is not undertaken:**

Monitoring of project status and progress has not been undertaken, creating gaps in understanding and undermining improved cooperation and investment prioritization;

- **There is no dedicated website and regional economic project portal:**

The MoFA website for RECCA hosts the declarations and little more, given the number of projects being undertaken, establishing a simple yet useable RECCA Portal would add huge consultative and coordination value at no cost.

79. This short summary of constraints can be overcome with little to no investment and simple re-adjustment to working processes and institutional capacities. Not only would this improved alignment between RECCA and the "Istanbul 'Heart of Asia' Process," it would also provide added value to all stakeholders. The implementation arrangements outlined in Section 6 are proposed in order to address these issues.

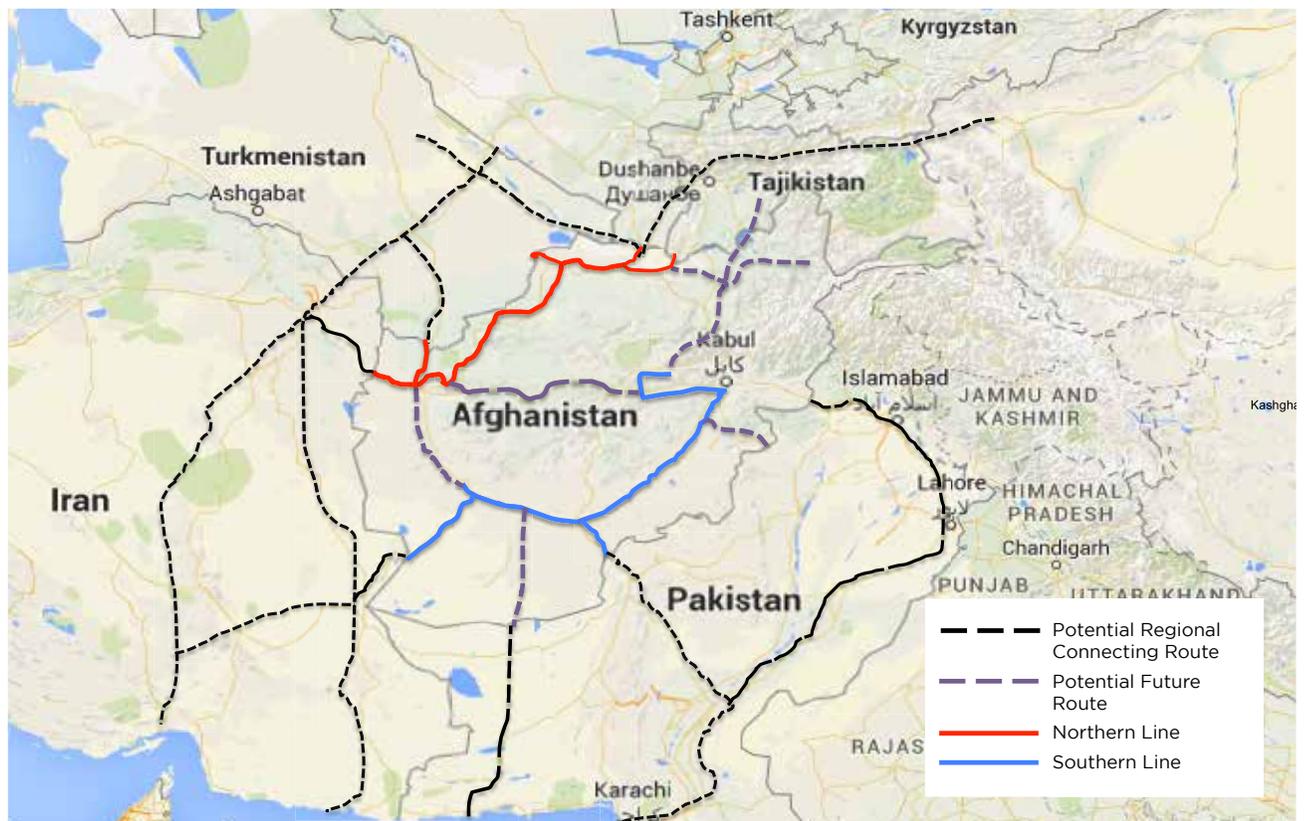
7.3 Sector Progress Update

80. From a sector development perspective, a great deal has been achieved since RECCA was established in 2005, though as RECCA has merely provided a platform for discussion, there has been no linkage between these projects and the RECCA process. As a result, the following section outlines the broad sector update, followed by a project update of major investments. With the trade-based work outlined previously, it is clear new opportunities are beginning to emerge.

7.3.1 Railways

81. There is considerable opportunity for the expansion of Afghanistan National Railway - linked to trade, transit, and extractives. Afghanistan's Railway Authority (AfRA) was established in 2012 and a comprehensive Afghanistan Railway National Plan (ANRP) is under development. While it will take many years before Afghanistan's national rail system is fully integrated, considerable effort is underway to link surrounding neighbors with key cities such as Jalalabad, Kabul, Kandahar, Herat, Sheberghan, Mazar-e-Sharif, Kunduz, and other key cities.

Figure 14. AFGHANISTAN'S EMERGING RAILWAY NETWORK



82. Khawaf-Herat Railway Project (191 Km): This railway line will connect Afghanistan directly to Iran's railway network, which will establish the only rail connection between the two countries. The project consists of four sections with a total length of 191 km, with the first and second sections of the line being about 76.8 km; located in the territory of Iran from Khawaf to Shamtigh at the border, the construction of these two sections will be completed at the end of 2015. The third and fourth sections of the line is about 114 km in length; located in the territory of Afghanistan extended from Shamtigh at the border to City of Herat. Construction of third section (Shamtegh-Rawzank Railway line - 62 km) funded by the Iranian Government is already 60% complete, the remaining construction will be started in the fourth quarter of 2015. The fourth section is expected to cost US\$141 million and is expected to be completed by the end of 2017. The ADB, Italian Government, US, and World Bank comprise the international partners involved.

83. Construction of Herat – Torghondi Port Railway line (150 km): At a cost of US\$270 million, financed by ADB/ Afghanistan and linking Herat to Turkmenistan, the line is scheduled for completion by the end of 2017.

84. Turkmenistan-Afghanistan-Tajikistan (TAT) Railway (Atamyrat-Imomnazar-Aqina-Andkhoy-Sheberghan-Mazar-e-Sharif-Kholm-Kunduz-Shirkhan Bandar) Railway Project (645 Km): At an estimated cost of US\$909 million, TAT is a section of the Silk Road railway line connecting Iran-Afghanistan-Tajikistan-Kyrgyz Republic and China. Estimates suggest the railway could be complete by the end of 2017, and would be financed through ADB. Sub-section details are as follows:

- **Construction of Aqina-Andkhoy railway line (35km):** Financed by Turkmenistan and Afghanistan, the construction of the Aqina-Andkhoy railway line is an important segment of the TAT Railway (Atamyrat – Imomnazar – Aqina – Andkhoy – Sheberghan). The project links Andkhoy-Aqina with Atamyrat-Imomnazar and is scheduled for completion of this segment, which is expected by the end of 2016;

- **Construction of Andkhoy-Sheberghan-Mazar-i-Sharif Railway line (265 km): Segment of TAT & Five Nations Railway:** Funded by ADB and Afghanistan, linking with Atamyrat-Imomnazar Turkmenistan, the project is due for completion by the end of 2017;

- **Construction of Kholm-Shirkhan Bandar-Kunduz (205 km) segment of TAT and Five Nations Railway Line:** At a cost of US\$360 million, funded by ADB and Afghanistan, the project should be completed by the end of 2017. The project would link the northern provinces, promoting connectivity, and could be utilized as a segment of TAT and 5 Party Project.

85. Jalalabad-Torkham-Landi-Kotal Railway Project:

The project would provide better trade/transit and transport facilitation between Afghanistan and Pakistan, as well as providing access to the Ports of Gwadar and Karachi for Afghanistan and the CIS countries through an integrated rail transport system. The railway line connecting Afghanistan-Pakistan would have a length of 98 Km, compared to the Jalalabad-Torkham (Afghanistan section – 75km) and Torkham-Landi Kotal (Pakistan section – 23km). The project has an estimated cost of US\$176 million and a construction time of two years. It is supported by the ADB, World Bank, and SAARC and involves Tajikistan, Uzbekistan, Turkmenistan, and China.

86. North-South Rail Line through Hajigak & Aynak Railway Project:

This project's objective is to provide the most efficient means of transport for mining products (Aynak copper mine and Hajigak Iron mine deposits) to regional markets. This line is proposed as a part of the Aynak Copper mine concession, which the government awarded to the Chinese company in 2007. The feasibility study and construction of railway line connecting the North to South through the Hajigak and Aynak mining to hubs was part of the agreement with China Metallurgical Group Corporation (MCC) . To date, however, no work has been conducted on this line.

Feasibility Studies

87. Five Nations Railway Road from China to Iran through Kyrgyz Republic, Tajikistan and Afghanistan (2,100 Km): In terms of this noteworthy project - with a total cost exceeding US\$2 billion - the line would provide connectivity between China, Kyrgyz Republic, Tajikistan, Afghanistan, and Iran. Some 1,148 Km of the line will pass through six provinces of Afghanistan, including Kunduz, Balkh, Jawzjan, Faryab, Badghis, and Herat. Funded by the ADB, the project would also provide access to the sea ports of Iran (Chabahar and Bandar Abbas). It would also connect China and CIS countries to Europe through Iran and Turkey. ADB, The World Bank, US, and the Bank of China are international partners. The feasibility study, including a preliminary design for 654 Km passing through Afghanistan, is ongoing and negotiations on financing are moving forward.

88. Feasibility Study & Preliminary Design of Kholm-Shirkhan Bandar-Kunduz Railway Line (200 km): Funded by ADB, this US\$2.6 million feasibility study is expected to be completed by the end of 2015. The line, once built, will be utilized as part of TAT and the 5 Party Railway Project.

89. Construction of Herat - Torghundi Port Railway Line (150 km): At a cost of US\$270 million, financed by ADB/Afghanistan and linking Herat to Turkmenistan, the line is scheduled for completion by the end of 2017.

90. Feasibility Study and Preliminary Design of Herat Airport to Torghundi Port Railway (150 km): Financed by ADB, at a cost of US\$1.2 million, completion date for the study is expected by the end of 2016.

91. Feasibility Study and Design of Kushk Herat - Gala-i-Now - Bala Morghab - Maimana - Sheberghan (457 km): Funded by ADB and Afghanistan, linking the Five Nations Railway Line and enhancing the economical situation of Herat and Northern provinces. The study costs US\$5 million and will be completed by the end of 2016.

92. Kolkhozobod-Panji Poyen-Kunduz-Shirkhan Bandar Railway Project (111 Km): The railway line would connect Afghanistan-Tajikistan with a total length of 111 km. The Tajikistan section (Kolkhozobod-Panji Poyen) is 50 km and the Afghanistan Section (Shirkhan-Bandar-Khunduz) is 61 km. This project is part of the Five Nations Railway Line (connecting Iran-Afghanistan-Tajikistan-Kyrgyz Republic-China) as well as a part of TAT (railway line connecting Turkmenistan-Afghanistan-Tajikistan). Cost is initially estimated at around US\$200 million, and would be financed by the Governments of Tajikistan and Afghanistan, and ADB. The technical feasibility study and primary design of the project is ongoing, with financial support provided by ADB, and is to be completed by the end of 2015.

93. Pre-feasibility Study Jalalabad - Torkham (75 km) Railway Line (Completed in 2010): Funded by ADB and completed in 2010.

7.3.2 Roads

94. Afghanistan has one of the longest distances to a seaport, more than 2,000 km, over harsh terrain and as a result, a great deal of investment has gone into regional market integration to decrease the time and cost of moving commodities across borders. The strategy has been to complete the 2,210 km Ring Road, as it is the only transport system that connects South Asia (India, Pakistan) and Iran to Central Asia (Tajikistan, Uzbekistan, Turkmenistan) directly on a land route.

95. Since 2001, Afghanistan Government and donors have built some 9,200 km of road, with USAID building at least 2,134 km alone. As funds have been reduced the new focus is on road sector sustainability including Operations and Maintenance (O&M) planning, with support provided to the Road Maintenance Unit (RMU). Despite such efforts, according to the Government 85% of Afghanistan's roads are still in poor condition and a number of strategic road corridors have yet to be concluded, including the Ring Road.⁶

96. Ring Road Remains Incomplete: Construction of the Ring Road started in the Herat province, which borders Iran. From here, it goes south and passes through Nimruz, Farah, and Helmand before reaching Kandahar. The road continues through the eastern provinces of Zabul, Ghazni, Wardak, Kabul, and Parwan. It then passes through Baghlan to reach Balkh in the north. From Balkh province, which borders Uzbekistan, it turns back west, through Jowzjan, Faryab, and Badghis provinces, returning to Herat where it completes the circle. The last part, however, connecting Akina port in Faryab with Herat has only been built, in parts, from 2012 onwards – with 233 km of road still missing between the northern provinces of Faryab (Qaisar district) and Badghis (Laman district). Stretches partly exist as dirt tracks, unpaved.

In January 2012 ADB commissioned the joint American-Turkish venture ECCI-METAG to construct the missing 233 km over a period of four years, at a cost of US\$477 million dollar. However, a dispute over security for the completion of the ring road is ongoing and the ring road therefore remains incomplete.

97. Central Asia Regional Economic Cooperation (CAREC): CAREC has been critical in forwarding a more strategic approach linking roads, transport, trade facilitation, and energy, though Corridors 3, 5, and 6 are the most important for integrating Afghanistan into regional trade corridors.⁷ CAREC Corridors affecting Afghanistan are as follows:

- **CAREC Corridor 3:** Corridor 3 has 6,900 km of roads and 4,800 km of railways, running from west and south of Siberian region of the Russian Federation through Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan to the Middle East and South Asia;

- **CAREC Corridor 5:** Corridor 5 connects East Asia to the Arabian Sea through Central Asia. The route covers the People's Republic of China, the Kyrgyz Republic, Tajikistan, and Afghanistan. The corridor has 3,700 km of roads and 2,000 km of railways; and,

- **CAREC Corridor 6:** Corridor 6 includes three routes linking Europe and the Russia Federation to the Arabian Sea port of Karachi and Gwadar or Bandar Abbas in the Persian Gulf. The route has 10,600 km of roads and 7,200 km of railways.

98. The Afghanistan Infrastructure Trust Fund (AITF): Japan, UK, and US contributed an additional US\$286 Million to the ADB managed AITF, which helps Afghanistan to build and run infrastructure in order to promote security and drive development. The AITF also helps ensure that the proportion of households with access to grid electricity nationally will increase to 50% by 2017.

⁶ Though the Road Tax Law of Afghanistan rules that the MoF has to charge one Afghani per liter of fuel as road tax, with the funds (US\$53 million in 2014) transferred to the Ministry of Public Works for road maintenance, fiscal problems meant that this money has still to be allocated to maintenance.

⁷ CAREC is a partnership of 10 countries (Afghanistan, Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan), supported by 6 multilateral institutions, working together to promote development through cooperation, leading to accelerated growth and poverty reduction.

Table 18
ROAD PROJECT UPDATE BY GEOGRAPHY AND END DATE - SECTOR ROAD

Name of Project	Project Purpose	Province	End Date
Regional Highway: Ring Road			
Qalai Muradbeg to Bagram Square (2 additional lanes 26.6 km)	Construction	Kabul	2015
Bagram Square to Jabul Seraj (2 additional lanes 25.4 km)	Construction	Parwan	2017
Jabel Seraj to Doshi (85 km)	Feasibility plus Construction	Parwan	2019
Doshi to Polikhomry (52 km)	Construction	Baghlan	2015
Qaisar - Bala Marghab - Laman Road Project (233 km)	Construction	Faryab, Badghis	2016
Laman to Armalek (52 km)	Construction	Badghis, Herat	2016
National Highway: North - South Corridor I			
Dar-i-Suf - Yakawlang Road (178 km)	Construction	Samangan, Bamyan	2019
Yakawlang to Kandahar (550 km) Feasibility Study	Feasibility	Bamyan, Wardak, Daykundi, Uruzgan, Kandhar	2017
National Highway: East - West Corridor			
Gardan Dewar towards Cheghcheran (40 km)	Construction	Wardak	2014
Behsud towards Gardan Dewar (60 km)	Construction	Wardak	2014
National Highway Other Projects			
Bagrami - Sapari Road (50 km)	Construction	Kabul, Nangarhar	2015
Sapari - Jalalabad Road (100 km)	Construction	Nangarhar	2016
Jabal Siraj - Surobi Road (50 km)	Construction	Parwan, Kapisa	2015
Faizabad - Baharak Road (44 km)	Construction	Badakhshan	2015
Lashkargah - Gereshk Road (32 km)	Construction	Helmand	2018
Sharan Angora Ada (50 km)	Construction	Paktika	2016
Khulm to Kunduz (139.1 km)	Construction	Kunduz	TBC
Gardez to Khost (47.0 km)	Construction	Paktia, Khost	2016
Parwan to Bamyan Road (30.6 km)	Construction	Parwan, Bamyan	TBC
Farah to Mil 78 (178.7 km)	Construction	Farah	TBC
Maidan Shar to Onai Pass (54 Km)	Construction	Wardak	2015
Herat Bypass road construction project (Construction of 45.04 km of asphalt road)	Construction	Herat	2016

7.3.3 Energy

99. The regional energy sector is going through a notable period of transition, with the Central Asia - South Asia Regional Electricity Market (CASAREM) set to transform the entire region, in part by helping to reduce poverty.⁸ Alongside the emergence of P3 and renewable energy arrangements, a new public private energy model is also being established, necessitating a focus on new energy sector governance arrangements. Given that a regional energy market cannot emerge unless cross-border transmission interconnections are made—linking regional countries to facilitate the transfer of surplus power between the regions—energy sector development is a critical regional cooperation priority.

100. Afghanistan only generates around 600 megawatts (MW) of electricity, mainly from hydropower followed by fossil fuel and solar power. Da Afghanistan Breshna Sherkat (DABS) estimates that the country will need around 3,000 MW to meet its needs by 2020, implying the need for a fundamental up-shift in generation. Afghanistan's power consumption per capita is among the lowest in the world at 195 kWh per capita in 2014, compared to 449 kWh in Pakistan and 684 kWh in India. Currently, only around 33-25 % of the Afghanistan population has access to electricity, though there is a large disparity, with 70 % of the Kabul population having 24 hours access. Similarly, in Pakistan, the demand for electricity has continued to out-pace the growth rate of the economy and is expected to more than double in 10 years to 45,000MW.

101. Afghanistan is endowed with rich hydrocarbon and renewable energy resources, which provides one of the pillars for ensuring energy security of the Country. The regulatory landscape in Afghanistan includes the Electricity Law, sets standards and directions and limitations on interventions for private sector investment in the energy sector. The draft incentivized electricity fed-in-tariff and investment policy of Afghanistan offers a conducive working environment for foreign companies and investors. The Energy Services Law allows foreign investors' investment in generation, transmission and energy trade.

102. With Afghanistan effectively operating under 10 or more separate (un-integrated) sub-markets, projects such as CASA-1000, TAPI, and TUTAP will not only transform regional energy trade, they will also allow a truly regional and national grid to emerge. For this to happen, deregulation and privatization of the electricity sector, alongside a sound investment environment, is also needed to attract new investment. Power Purchase and Sales Agreements (PPSAs) are also being signed with regional neighbors, and an Independent Power Plant (IPP) arrangement is under development in Mazar and Kandahar.

Afghanistan's Surging Power Demand

Afghanistan's power demand can be expected to grow at 12-15% p.a. over the next decade, resulting in a supply shortfall of over 6,000MW by 2032. The country's current domestic power supply is around 1,073 GWh (operational capacity of 470MW) or 22% of total supply; while power imports from Central Asia account for 78% of total supply - power import agreements vary in capacity/pricing and are regularly re-negotiated.

(IFC, 2015)

⁸ According to IFC, reliable and cost-effective energy supply is key for economic growth, particularly for industrial development which contributes only 21% to Afghanistan's current GDP. Recent studies in comparable countries have indicated that a 1% increase in power consumption correlates with an increase in real GDP per capita of up to 0.3%. (Source: IFC Mazar IPP, 2015.

103. Central Asia South Asia (CASA-1000): CASA-1000 aims to provide for the export of the available summer electricity surpluses from Tajikistan and Kyrgyz Republic to Pakistan and Afghanistan. The total project cost, including contingencies and interest during construction, is estimated at US\$953 million. The project is financed by the World Bank (WB), Islamic Development Bank (IDB), European Investment Bank (EIB), as well as United States Aid (USAID). The project will transport up to 1,300 MW of power from the Kyrgyz Republic and Tajikistan to Afghanistan (300 MW) and Pakistan (1,000 MW), over a 30-year project life span. The principal benefit to Afghanistan will be lower costs and increase availability of power to domestic users, in particular in Kabul. The project will provide a stable and potentially increasing source of revenue to the Government of Afghanistan from fees for the transportation of power across its territory to Pakistan. The main CASA-1000 projects are outlined below:

- A 500 kV AC line from Datka to Khoujand (477 km) to transfer the surplus power from the Kyrgyz Republic to Tajikistan, with the Tajikistan internal network transferring this power to Sangtuda;
- A 220 kV single circuit AC line (80 km) in Tajikistan between Nurek and Sangtuda substations;
- A 1300 MW AC-DC Converter Station at Sangtuda;
- A 750 km High Voltage Direct Current (HVDC) line from Sangtuda to Peshawar;⁹
- A 300 MW DC-AC Converter Station at Kabul; and,
- A 1300 MW DC-AC Converter Station at Peshawar.

104. The project includes construction of transmission lines between the Kyrgyz Republic and Tajikistan and from Tajikistan through Afghanistan to Pakistan with a 300 MW converter to supply users in Afghanistan and the remainder 1,000 MW of the power to be re-exported to Pakistan, with associated transit fees to accrue to GIRoA. Tajikistan's national power utility Barki Tojik has recently secured a US\$110 million loan from the European Bank for Reconstruction and Development (EBRD) to fund the construction of the cross-border electricity transmission project; in particular the power converter station and related infrastructure in Tajikistan. In recent months an Inter Governmental Council (IGC) resolution was signed covering the Master Agreement, including bilateral Power Purchase Agreements and Loan Agreements Signed.¹⁰

105. Turkmenistan - Afghanistan - Pakistan - India (TAPI) Gas Pipeline: TAPI aims to ensure the steady supply of the affordable gas to power the growing economies of Afghanistan, Pakistan, and India. At a cost of US\$9 billion, and financed by ADB, this is a massively important project that could be a game changer for growth across the four countries. Thought the 21st

Steering Committee Consortium was tasked to select the consortium leader from among TOTAL, ROSTEC, and China National Petroleum Pipeline, at the 22nd Steering Committee in Ashgabat Turkmenistan, the partners agreed that state-owned TurkmenGaz will lead the multinational consortium with a majority investment (51 %), and GAIL India Ltd will hold stake in the four-nation company. The 1,814 km pipeline is expected to have a capacity of 90 million standard cubic meters per day, from Turkmenistan's Gunorta Yoloten-Osman fields. The pipeline would deliver 33 Billion Cubic Meters (BCM) of gas a year from Turkmenistan through Afghanistan and Pakistan into India. From the field, the pipeline will run to Herat and Kandahar province of Afghanistan, before entering Pakistan. In Pakistan, it will reach Multan via Quetta before ending at Fazilka (Punjab) in India.

106. Turkmenistan - Uzbekistan - Tajikistan - Afghanistan - Pakistan Power Interconnection Project (TUTAP): The underlying concept behind TUTAP is for thermal and hydro power rich Central Asian countries to supply Afghanistan grid with surplus power, for export to Pakistan. The project is being co-financed by ADB and through Afghanistan Infrastructure Trust Fund (AITF), with completion due by 2020. US\$550 million has already been financed for earlier phases that are either operational or are under construction, and US\$450 million is required for the final phase. As a great example of regional cooperation, the Government of Afghanistan leads are the Ministry of Energy and Water and Da Afghanistan Breshna Sherkat. The Governments of Turkmenistan, Uzbekistan, Tajikistan and Pakistan are centrally involved, and the process is supported by the Asian Development Bank, Governments of Japan, United Kingdom and United States.

107. Short-term (6-12 months) targets include signing of power purchase and sales agreement (up to 500 MW) between Afghanistan and Turkmenistan (2018-2027) with volume, tariff and escalation and penalties agreed in Q3 2015. Medium-Term (1-3 years) targets include the completion of Phase 3 and 4 of TUTAP.

108. Afghanistan Tajikistan Gas Pipeline (ATGP): The ATGP is intended to sell Afghanistan's surplus gas to Tajikistan. A bilateral agreement has been drafted though it has still to be mutually agreed by both parties and signed. The Government of Afghanistan is committed to the successful implementation of ATGP, and proposes a technical committee to discuss a pipeline feasibility study.

⁹ The (HVDC) line has a length of 117 km in Tajikistan, 562 km in Afghanistan and 71 km in Pakistan.

¹⁰ In July 2015 Tender packages for Supply and Installation of Multi Terminal HVDC Converter Stations in Pakistan, Afghanistan, and Tajikistan with related O&M Services associated with CASA-1000 and Supply and Installation of Transmission Lines in Afghanistan associated with CASA-1000 Project were opened on 8-9 of June, 2015 in Almaty, Kazakhstan.

109. Kukcha Hydro-Electric Power Station: This hydro-power station will have the capability to generate 445 Megawatts. The 2009 pre-feasibility and feasibility studies estimated an investment cost of US\$1,459.28 million, with an investment period of 7 years, with annual revenue flows expected at US\$263 million, based on the feasibility study. Financing for the project is required. Short-term (6-12 months) priorities include statutory clearances, preparation of DPR and its approval from the competent authority and preparation of tender documents, and awarding of the construction. Medium-Term (1-3 years) actions would include (i) construction of diversion tunnels (18 months) (ii) construction of civil and hydro-mechanical works for Qala-i-Mamay hydropower composite dam and power house and (iii) supply and erection of all electro-mechanical equipment for five units, each (5*89) 445 MW including testing and commissioning.

110. Kunar Hydro-Electric Power Station: Kunar hydro-electric station will have the capacity to generate up to 798 MW, potentially generating US\$484.95 million USD annually. The 2009 pre-feasibility and feasibility study estimates an overall capital investment of US\$1,636 million is required, invested over a period of 7-8 years. With domestic demand for electricity to increase substantially, and despite considerable new investments such as CASA-1000 and TUTAP, this considerable investment has long been overlooked. Short-term (6-15 months) actions would include infrastructure and drilling for investigation, with tendering and award of the works for the other three packages. Drilling would take nine months, and six months would be needed for tendering and making the award. Long-Term (3-6 years) actions would include (under Package II) completion of the diversion tunnel and construction of civil and hydro-mechanical works.

The station could be commissioned within a period of 7-8 years, though financing has been elusive, despite the pressing need for power.

111. ADB North-South Power Transmission Enhancement Project: Approved in 2013, and scheduled for completing by 2017. At a cost of US\$220 million, the project is to construct a 500 kV transmission line about 225 km long across the Hindukush mountain range between the northern town of Dashte Alwan and Kabul at the southern end. The project aims to increase the supply of power from the north of Afghanistan to the south and east.

112. Mazar Independent Power Producer: The IFC supported Mazar IPP is a pivotal project, potentially generating up to 50 MW by 2017, equating to around 30 % of Afghanistan’s current indigenous power supply. Fuel will come from natural gas via the Sheberghan-Mazar pipeline and the plant will be located next to the existing Northern Fertilizer Power Plant (NFPP) site at Kud-o-Barq near Mazar-e-Sharif. The Ghazanfar Group - a private local conglomerate - in partnership with leading international power developer, and support from IFC are the key stakeholders.

113. The project would guarantee supply of power under an off-take agreement with DABS for a period of 20 years. In May 2015 an MoU was signed between the Government of Afghanistan, Ghazanfar Group, and IFC, and preliminary technical, legal and commercial due diligence is ongoing. A working group is assisting in project development and negotiations are expected to be completed in the coming few months. The rationale for the IFP support IPP is provided in Table 19 below.

Certainty of Long-term Electricity Supply	Mazar IPP will add long-term year-round certainty to Afghanistan’s domestic electricity supply for the next 20 years. Potential to significantly increase power plant capacity in the future.
Leverages Indigenous Natural Resources	Existing gas fields in Sheberghan with increasing production, along with a refurbished pipeline with excess capacity will allow Mazar IPP to efficiently utilize the country’s natural resources.
Utilize Existing & Future Transmission Capacity	Utilizes existing distribution line from NFPP substation (Kud-o-Barq) to Mazar substation, with capacity expansion plans already in place.
Strong Economic Viability	Mazar IPP will generate electricity at less than the “true” cost of imported power in the country over the long-term.
Can Facilitate Increased Power Supply to Kabul	Mazar IPP will meet a significant portion of current local demand in Mazar region, hence making available imported power which was previously utilized locally, for increased supply to Kabul.
Establishes a Template for future IPPs	Mazar IPP will establish a balanced, sustainable and bankable project structure for future IPPs in Afghanistan
Will Encourage Greater Interest in Afghanistan’s Power Sector	Demonstrating the success of one IPP in a relatively secure part of the country, will result in a significant increase in interest from local/international investors for future IPPs

Source: IFC (2015)

114. Kandahar Solar Power: Solar energy is being considered as one of the key elements of Afghanistan’s energy security initiatives. The average annual solar resource in Kandahar is very good with one axis tracking providing an annual average of about 5.8 kWh/m²/day (sun-hours). A 10 MW scale solar PV plant to be set up in the city of Kandahar, through private sector participation. The plant would generate over 20,000 MWh the first year (about 10 percent of the current Kandahar load), and about 48,000 MWh generated over the next 25 years. The objective of a 10 MWp Kandahar photovoltaic power system (PVPS) project would be to use solar energy to supplement grid power production. A grid-tied PVPS allows for generation to meet some of the daily electrical energy demand during peak hours. The project will be on the IPP base - The land procurement will be facilitated through the Government of Afghanistan, DABS will act as single buyer and USAID will provide funds as grant to lower the tariff. Long term standard Power Purchase Agreements (PPA) for 15-20 years is expecting to be signed and the project to be selected on the basis of tariff quoted (forward or reverse auction) or upfront capital subsidy based on viability Gap Funding requirement. The project is expected to be announced for RFP in September 2015, the bidding will take place in October and work onsite is expecting to start in November 2015.

Table 20 provides the project specifications.

**Table 20
PV ARRAY SPECIFICATIONS
FOR KANDAHAR SOLAR POWER**

Size of PV Array	10,000	kWp
PV Array Area w/tracking	167,000	Square meters
Annual PV Energy Generation	20,183	MWh/year
PV Plant Capacity Factor	23%	Avg Annual
Kandahar 10 MW p Solar System Specifications		

116. The USAID support for the Sheberghan Gas Development Project (SGDP) has just been extended until July 2016. Phase I focused on the development of Sheberghan Gas Field and includes the rehabilitation of two existing gas wells and drilling of one additional gas well in the Juma-Bashikurd Field through an “on-budget” third party services contract. The objective of this component is to prove gas reserves and prepare the wells for gas production. Phase I also includes preparation of a data evaluation report and, assuming sufficient data, the preparation of up to seven reserve estimates for seven priority gas fields in the Sheberghan area. Phase II focused on the development of a public-private partnership framework for construction and operation of a commercial, long-term gas gathering and processing business. Phase II contemplates the development of a recommended business and legal structure for the development of a gas gathering system and gas processing facility through a public-private partnership. This would provide a vehicle for leveraging the planned US\$60 million USAID grant to the Government of Afghanistan for gas infrastructure development through investment in long-term commercial operations that are required if the gas produced is to be gathered and processed into gas of the quality required for purchase by end-users such as independent power producers.

(USAID, 2015)

115. Sheberghan Gas Fired Thermal Power Facility:¹¹ The development of Sheberghan gas fields (which is located in Jawjan province with a population of ~485,800) will rehabilitate the gas fields and install gas-fired power generation capacity of up to 200 MW within 3 years (supplying base load power to the North East), with an expected life span of 20 years for the plant, and considerably longer (30 years plus) for the gas field. Supplying the North East Power System (NEPS), the principal benefit will be to lower costs and increase availability of power to users in the Northeast, with significant impacts on local economic growth and employment. The project will also provide a stable source of royalties to the government from extraction of the natural gas. Feasibility data suggest a large potential for future expansion of these facilities to supply the domestic market, which has considerable unmet demand.

¹¹ Sheberghan is located along the Safid River banks, about 130 km (80 miles) west of Mazar-e-Sharif on the national primary ring road Herat-Kandahar-Kabul-Mazar-e-Sharif-Sheberghan-Maimana-Herat.

7.3.5 Mining

117. Afghanistan economy has an extremely low export base, outside of dried fruit, carpets, and illegal exports (opium). As a result, the only export-led growth model for Afghanistan in the near term is the mining sector, though success in expanding extraction requires considerable investment and a long-term perspective. The US\$1 trillion in deposits announced by the US Geological Survey in 2010 provides some optimism for the sector, despite the fact that commodity prices are on a downward trend.

118. The Government of Afghanistan has decided to pursue a market-driven policy towards the sector where development will be primarily funded by private sector investment in both exploration and in mining. The Hydrocarbons Law (2009) and revised Minerals Law and Mining Regulations (2014) are an important step in providing a robust legislative framework to encourage private sector investment in the extractive industries sector in Afghanistan. The mining law is being amended, while the necessary infrastructure to make extraction competitive still has to be put in place.

119. Aynak Cooper (Logar Province) Mining Concession: Mineral rights to a large copper deposit at Aynak were awarded in 2008 to MCC, a Chinese joint venture. The copper mine development will produce annually approximately 200,000 tons of copper cathode, or an equivalent amount of copper concentrate. MCC proposed to build a coal-fired power plant and supply 50 per cent of the power generated to Kabul and the surrounding community, plus a railroad. Pre-feasibility studies based on Soviet-era surveys indicate that quantities identified for open-pit mining may be 155.4 million tons at 1.13 per cent Cu (Middle District), and for underground mining, 194.1 million tons at 1.3 per cent Cu (West District). A study commissioned by USAID in 2010 concluded that the Aynak project would require at least 7-8 years to reach production. MCC has a 30 year concession on the mine and despite a public battle to save Aynak's archeological wonders, MCC is not under time pressure to extract.

120. With up to US\$100 billion in copper resources underground, and 7,000 jobs to be created, Aynak is a critical anchor project. A World Bank study in 2010 estimated that, with the promised railway expansion, the project would increase government revenue from US\$166 million to US\$412 million annually and contribute from US\$77 million to US\$413 million annually toward the creation of a surplus in the current account balance.

To resolve the standstill on Aynak copper project, the Commercial Law Development Program (CLDP) of the US Department of Commerce has enlisted the aid of the International Senior Lawyers Project (ILSP) and the Columbia Center on Sustainable Development to assist the Ministry of Mines and Petroleum (MoMP) in the renegotiation of the Aynak agreement, as well as looking at other recently tendered mining agreements.

121. Aynak offers the opportunity to serve as a major anchor project for the development of upstream, downstream, and side-stream linkages as well as ancillary infrastructure that will drive economic growth. Nonetheless, there are significant risks in terms of environmental and social costs. The project as contracted to MCC will provide 200MW of coal-fired power to Kabul and its surrounding areas, with potential implications for the Sheberghan gas-fired power plant and/or energy transport to Pakistan (CASA-1000).

122. Hajigak Iron-Ore (Bamyan) Mining Concession: Hajigak is the largest iron ore oxide deposit in Afghanistan - with 1.8 billion metric tons of ore - and it is also Asia's largest untapped iron ore deposit. The deposits stretch over 32 km and contain 16 separate zones, up to 5 km in length, 380 m wide and extending 550 m down, seven of which have been studied in detail. While concessions were discussed with the Indian consortium of SAIL-Affisco, consisting of seven companies with support from India's government, contracts were not signed and no work is underway in Hajigak.

123. For Hajigak and Aynak, the World Bank has conducted a study to quantify their economic impact. The central result is that the total impact on annual national income could vary by 87 percent per year on average (US\$1.35 billion versus US\$2.53 billion or 14.7 percent to 27.5 percent of Afghanistan GNI in 2008), depending on what portion of the mining revenues are spent domestically and what portion of mine procurement goes to domestically based companies.

Note that the majority of this variation is not due to the direct benefits of the mining sector - which do not depend on linkages so constant at US\$728 million across the case - but the indirect impacts, which vary from US\$173 million to US\$574 million, and the induced impacts which vary from US\$433 million to US\$1.2 billion.

7.3.6 Fiber Optics

124. So far 23 provincial capitals and over 70 major districts have been connected and made operational for broadband connectivity. Moreover, international connectivity has been established with Pakistan at two points – Torkham and Spin Boldak; with Tajikistan at Sherkhan Bandar; with Uzbekistan at Hairatan; with Turkmenistan at two points at Aqina and Torghundi and with Iran at Islam Qala.

125. While much of the fiber optic network has been established, connecting the network with China is an important investment with considerable returns to growth and jobs creation. In addition, there is an opportunity to connect China with Afghanistan through the Wakhan border. This is a 480 km OFC route, which would be required to connect Faizabad city of Badakhshan province with the Chinese border. This connectivity could be established with a PPP Model. Short-term goals would be to connect Badakhshan and Bamyan Province with the backbone network. Medium-Term goals would include connecting another three provinces to the backbone network in 2015-16 (Kapisa, Kunar, Ghulam Khan). An investment cost of around Circa US\$50 million would be required over an investment period of five years. The World Bank is an institutional partner.

128. The Government of Afghanistan believes that only “innovative approaches” will work in Afghanistan given its weak administrative capacity. As a result, donors can assist in drawing-down risk for the private sector, and the Government can provide concessions that make market sense (without creating distortions) alongside non-financial support (i.e. infrastructure and facilities).¹²

Critical to making this work is the legal framework and contract law, implying significant investment in qualified transaction advisors, so that success can be replicated.

129. Modalities include, but are not limited to **Build-Operate-Transfer (BOT) and Design-Build-Operate (DBO)** projects as output focused PPPs. Government recognizes that both BOT and DBO projects typically involve significant design and construction and long-term operations phases. For new-build (greenfield) or existing (brownfield) projects involving significant refurbishment and extension, there is a need to leverage regional experience and adopt best practices. Independent transaction advisors must play a critical role in legal and contractual aspects, including Off-Take/Power Purchase Agreements, Input Supply/Bulk Supply Agreements and Implementation Agreements, for example.

Emerging PPP projects are bulleted below:

- Afghanistan Health Sector PPP;
- IFC Energy Sector PPP;
- Multi-Modal Inland Ports / Special Economic Zones;
- Railway Operations and Maintenance;
- Roads Operations and Maintenance;
- Justice Sector PPP; and,
- Municipal Waste Collection.

130. RECCA proposes to reach out to PPIAF for support in identifying innovative models, including BOT), Build Transfer (BT), Build Own Operate Transfer (BOOT) and Build Own Operate (BOO) models. These are for new roads. The Rehabilitate Own Operate Transfer (ROOT) modality might work for certain highways, where tolls can be established. Regional cooperation will be key in identifying models that have worked in similar contexts.

7.4 Priority Policy & Governance Areas

126. It is not the role of RECCA to review each and every policy necessary for regional economic cooperation, and as a result, only high priority areas are selected where support can make a significant impact on current practice, and where new markets and sources of finance can be leveraged. As a result, the areas summarized here remain high priority and can be feasibly implemented.

Public Private Partnerships (PPP)

127. Public Private Partnerships are slowly beginning to emerge, allowing new capital flows into strategic parts of the economy. However, the PPP law has still to be drafted and endorsed, though the process is underway. RECCA wishes to support public-private alliances, and where appropriate, to stimulate private-sector led development and increased private-sector investment in Afghanistan. Such an approach is critical to key flagship projects such as the MMIPs, Special Economic Zones, Independent Power Plants, and Municipal Waste Management operations among other emerging priorities.

¹² A Concession gives a concessionaire the long term right to use all utility assets conferred on the concessionaire, including responsibility for operations and some investment. Asset ownership remains with the authority and the authority is typically responsible for replacement of larger assets.

131. Options for Municipal Level PPPs: Since 2001, Afghanistan's urban centers have experienced unprecedented rural to urban migration—a trend expected to continue given the ongoing political and economic instability—and the most visible impacts of this urbanization have been the environmental deterioration of urban centers and increasing health risks to urban residents. Afghanistan is one of the few countries that has not privatized its municipal waste management, yet the government is unable to provide adequate servicing on its own. Urban waste is one of Afghanistan's most underutilized resources, and as such opportunities exist for PPPs in the municipal waste management sector that will generate employment, boost the local economy, and create domestic revenues. An integrated municipal waste management portfolio will encourage the government to develop incentives (such as land allotment and tax exemptions) for domestic and foreign investment in municipal servicing, and enable Afghanistan private sector to develop innovative, market-based solutions for urban waste.

132. PPP opportunities include private waste management companies that construct the large-scale infrastructure necessary to provide collection, recycling, and landfill management services and public awareness campaigns, as well as municipal solid waste conversion technologies that transform waste into valuable commodities like clean energy to be used for electricity and heating, fertilizers, building materials, and cleaner burning fuels, while cutting pollution, reducing costly imports, and generating revenue from the sale of energy created.

National Railway Legal & Regulatory Framework

133. Railways hold unique promise for Afghanistan, and given the rather complex context, a hybrid railway ownership mode is under development. As an example of such an approach, in March 2015 the Afghanistan Railway Authority (AfRA) (Established in 2012) executed and officially signed a new Operation and Maintenance (O&M) Contract for the Hairatan to Mazar-e-Sharif railway line on 15th of March 2015, with the Operator "SE Sogdiana Trans" of the Republic of Uzbekistan. Much of the early development has been supported by US Central Command (USCENTCOM) and academia, working vigorously to create a comprehensive Afghanistan Railway National Plan (ANRP).

134. The initial step in expanding the Afghanistan Railway system was taken during a trilateral summit between Afghanistan, Turkmenistan, and Tajikistan attended by President Hamid Karzai on March 20, 2013. During the meeting a memorandum of Understanding (MoU) was signed to establish a railway line linking the three countries.

In materializing the trilateral memorandum, a 75Km railway line has already been completed linking Hairatan port with Mazar-e-Sharif. To further develop railway lines in Afghanistan, AfRA is planning to establish its Rail Lines in two sectors. The Northern Line linking Iran to Herat-Torghundi-Sheberghan-Aqina-Mazar-e-Sharif and subsequently Hairatan bordering Uzbekistan. And the Southern line linking Zaranj-Delaram-Chaman-Kandahar-Kabul-Bamyan (AfRA, 2015). For the national rail system to work effectively, eventually a unified railway system must emerge.

135. Support is needed to strengthen the legal, regulatory, and governance capacity of AfEA and the Ministry of Public Works, both in passing and then implementing the Afghanistan Railway Law (the law consists of 12 chapters and 105 clauses). With rail critical to regional cooperation, strengthening the proposed Hybrid Railway Ownership Model has never been more critical.

Multi-Modal Inland Ports

136. As a land-locked country, dry ports are extremely important features of a competitive economy, allowing efficiencies to be achieved within economic enclaves that foster an enabling environment. If the construction of MMIPs (as dry ports) can be established, and linked to the proposed Special Economic Zones (SEZ) along key corridors, the trade and transit economy would benefit significantly.

137. In accordance with current international best practices, Afghanistan needs to take stock of successful MMIP ventures abroad. India has made major trade progress due to its network of dry ports, and China is beginning to do the same. Mongolia too - another landlocked developing country - has made progress on building dry ports with the support of ADB. The Mongolian government pushed this hardware project in general for the purposes of increasing its trade and transit, but in particular to facilitate the export of its mineral resources.

138. Governments have increasingly turned to partnerships with the private sector in order to provide services that once were the sole dominion of governments, from service infrastructure to advanced technology. In this type of partnership - part owned and operated by the government and part owned and operated by a firm or consortium of firms - through legally binding contracts the parties share responsibilities in the design, implementation, operation, and management of the given project. The allocation of resources, risks, rewards and responsibilities, payments arrangements, and other administrative and organizational details differ from case to case.

139. Currently MMIPs and SEZs cannot move forward unless PPP-focused feasibility studies are undertaken, in order to determine the feasible business model, concession/capital/operational costs, NPV, ERR, and IRR. These must be calculated in order to attract private operators and potentially sovereign investors such as the GCC states. The regulatory and legal environment also needs considerable development, and support is required in this area.

Regional Workforce Employment

140. Improvement of the labor market and facilitating skilled labor exchange at the regional level has never been more critical, in light of increased unemployment and the worsening macro-fiscal context. Both Pakistan and India provide a significant number of economic migrants to the GCC states (earning remittances of US\$4-10 billion a year), with a considerable impact on remittances and skills transfers.

Table 21.

REMITTANCES FROM THE GCC ECONOMIES (US\$ MILLION)

	2010	2011	2012	2013	2014
Afghanistan	6.00	4.34	4.19	82.21	97.31
Pakistan	4,715.73	5,985.15	6,837.87	8,982.37	10,477.27
India	25,533.71	29,694.17	32,681.53	36,758.97	36,978.91

141. The objective is to enhance regional labor market efficiency through bilateral and multilateral labor-exchange agreements among regional countries; to develop a region-wide system of labor-market information sharing; to develop mechanisms and standards for protecting the rights of migrant workers in the region; and to gradually lower barriers to entry into regional labor markets for skilled workers. To make this happen a Memorandum of Understanding must be concluded, and other regulatory obstacles removed, with Qatar, UAE, Kuwait, the Kingdom of Saudi Arabia, and Central Asian Countries.

Moreover, as shown in Chart 18 below, the fall in external assistance must be met by an increase in new flows – and remittances appear to provide an important opportunity to improve regional cooperation based on mutual dependencies.

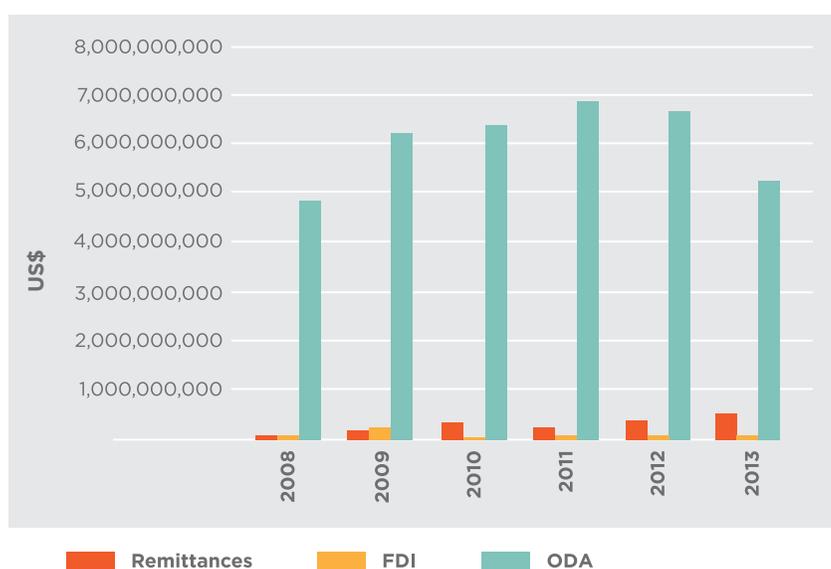


Chart 18. Impact of Remittances on Afghanistan (2008 - 2013)

142. MoUs have been drafted and negotiation is in progress with the UAE, Kuwait, Saudi Arabia, Turkey, Tajikistan, Bahrain and Azerbaijan. In addition, a window of negotiation has been opened with Iran. Currently, an MoU has only been signed with Qatar, though implementation has yet to begin. A big push to establish recruitment companies in Afghanistan will be needed, alongside oversight to guarantee fair employment practice.

7.5 Summary Project Update

143. Table 22 below provides a general summary of the status of the above mentioned investments, including economic impact details where feasibility studies have been conducted and economic and financial assumptions have been reported.

Table 22 PROJECT STATUS				
RAILWAYS	Objective and Expected Results			
Project Name	Status	Financier	Time Frame	Cost (Circa) (USD)
Khawaf-Herat Railway Project (191 Km)	In Progress	Section 3 - Iranian Section 4 - ABD, Italian, US and WB	Section 1-2 to be completed 2015, Section 3 60% complete, Section 4 to be complete end 2017	Section 4 - \$141 million
Construction of Herat - Torghondi port Railway line (150 k)	In Progress	ADB, Afghanistan	End 2017	US\$270 million
TAT Railway (Atamyrat-Imomnazar-Aqina-Andkhoy-Sheberghan-Mazar-e-Sharif-Kholm-Kunduz-Shirkhan Bandar) railway project (645 Km)	Sections are In Progress	ADB Sub Sections - Turkmenistan, Afghanistan	End 2017	US\$909 million
Jalalabad-Torkham-Landi-Kotal Railway Project		ADB, World Bank, and SAARC	2 year construction	US\$176 million
North-South Rail Line through Hajigak & Aynak	Feasibility Study only	Chinese (private)		
Five Nations Railway Road from China to Iran through Kyrgyz Republic, Tajikistan and Afghanistan (2,100 Km)	Feasibility and Preliminary Design is In-Progress	ADB, World Bank, US, and the Bank of China		US\$2 billion
Feasibility Study & preliminary Design of Kholm-Shirkhan Bandar-Kunduz railway line (200 km)	Feasibility is In-Process	ADB	End 2015	US\$2.6 million
Construction of Herat - Torghundi port Railway line (150 km)		ADB, Afghanistan	End 2017	US\$270 million
Feasibility Study and Preliminary Design of Herat Airport to Torghondi Port Railway (150 km)		ADB	End 2016	US\$1.2 million
Feasibility Study and Design of Kushk Herat - Qala-i-Now - Bala Morghab - Maimana - Shaberghan (457 km)		ADB, Afghanistan	End 2016	US\$5 million
Kolkhozobod-Panji Poyen-Kunduz-Shirkhan-Bandar Railway Project (111 Km)	In Progress	Tajikistan, Afghanistan, ADB	End 2015	US\$200 million
Pre-feasibility Study Jalalabad - Torkham (75 km) Railway Line	Completed in 2010	ADB		

Summary Project Update

Table 22.
PROJECT STATUS

TRANSPORT/TRANSIT	Objective and Expected Results			
Project Name	Status	Financier	Time Frame	Cost (Circa) (USD)
Ring Road Completion	Partially Complete, 233 km missing in North	ADB		Cost of Missing Piece US\$477 million
CAREC Corridor 3 (Russia through Afghanistan-Tajikistan-Kazakhstan, Kyrgyz Republic, Turkmenistan and Uzbekistan)				
CAREC Corridor 5 (East Asia to the Arabian Sea)				
CAREC Corridor 6 (Link Europe to Russia to Arabian Sea)				
Afghanistan Infrastructure Trust Fund (Regional Highway, National Highway)	In Progress	Japan, UK, US	2015-2019	US\$286 million

Table 22
PROJECT STATUS

ENERGY	Objective and Expected Results			
Project Name	Status	Financier	Time Frame	Cost (Circa) (USD)
CASA-1000	Inter Governmental Council (IGC) resolution signed recently	WB, IDB, EIB, USAID		US\$953 million
Turkmenistan, Afghanistan, Pakistan and India (TAPI) Gas Pipeline	The SC unanimously endorsed State Concern TurkmenGaz as the Consortium Leader of TAPI Pipeline Company Limited with 51%.	TurkmenGaz (51%), GAIL India Ltd, UNDP	2013 - 2043	US\$9 billion
TUTAP-Electricity Transfer from Turkmenistan, Uzbekistan, Tajikistan, to Afghanistan & Pakistan	In Process	ADB, AITF	Phase 1 & 2 In Process, Phase 3 under procurement, Phase 4 Completion 2020	US\$1 billion of which 55% already financed
Afghanistan Tajikistan Gas Pipeline (ATGP)	Bilateral Agreement drafted but not signed			
Kukcha Qala-Marnay Hydro-Electric Power Station	Feasibility Complete	Financing Required	7 years	US\$1.46 billion
Kunar Hydro-Electric Power Station	Feasibility Complete	Financing Required	7-8 years	US\$1.6 billion
ADB North-South Power Transmission Enhancement Project	In Process	ADB	2017	US\$220 million
Mazar Independent Power Producer	MOU signed May 2015 With Ghazanfar	IFC	2017	
Kandahar Solar Power	RFP to be issued Sept 2015, Work to start Nov 2015	DABS, USAID		
Sheberghan Gas Fired Thermal Power Facility	Project Development Phase is on-going	USAID	July 2016	

Summary Project Update

Table 22
PROJECT STATUS

EXTRACTIVES				
Objective and Expected Results				
Project Name	Status	Financier	Time Frame	Cost (Circa) (USD)
Aynak Copper Mine	In Process	MCC (private Chinese company)	7-8 years	Cost of Missing Piece US\$477 million
Hajigak Iron Ore Mine	No contract signed	Private	Uncertain.	

Table 22
PROJECT STATUS

TELECOMMUNICATIONS				
Objective and Expected Results				
Project Name	Status	Financier	Time Frame	Cost (Circa) (USD)
Fiber Optic Ring	23 of 70 districted connected	Potentially WB	5 years	US\$50 million

Table 22
PROJECT STATUS

GOVERNANCE				
Objective and Expected Results				
Project Name	Status	Financier	Time Frame	Cost (Circa) (USD)
Public Private Partnerships	PPP law still to be drafted		Soon presented to cabinet for approval	US\$500,000
National Railway Legal and Regulatory Framework	Under development. First O&M Contract signed March 2015	US Government		
Multi-Modal Inland Ports	PPP Feasibility Studies Required	US Government		
Regional Workforce Employment	MoU draft and negotiations in process with 7 countries in region	No financing needed.	Ongoing	

8.

CONCLUSION

144. Building on the RECCA series since its inception one decade ago (when the forum was last convened in Kabul), RECCA-VI has introduced innovative conference elements, from the incorporation of Economic Impact Assessments to ensuring a more regional action plan for the way forward. RECCA-VI has also shifted the focus of this regional diplomatic meeting from facilitating large-scale infrastructure projects for traditional donors and IFIs, to an organized regional platform for financing more feasible bankable projects, from regional governments, donors and private sector actors. More modest in scale but more pragmatic in terms of prospective impact, the RECCA-VI priority bankable projects offer inherent value added not only for Afghanistan but each of its regional partners.

145. RECCA will pursue the conference Declaration and further goals detailed in this strategy through an Implementation Phase, which will commence at the conclusion of RECCA-VI and stretch to the next RECCA. Implementation will consist largely of regional investment consultations in which the Government of Afghanistan will hold follow-up meetings with regional government partners and international development agencies—including the UN, the EU, the World Bank, and the ADB—as well as new regional development banks, Gulf-based sovereign wealth funds, private infrastructure development entities, private equity firms, and individual investors. It will also explore and seek to incentivize creative public-private investment partnership modalities among these partners.

146. The RECCA Commission will guide and offer much-needed leadership to RECCA implementation. Sanctioned by President Mohammad Ashraf Ghani, the Commission will supervise the inter-ministerial RECCA Secretariat based in the Ministry of Foreign Affairs and will welcome the participation of all interested public and private sector partners. The Commission's first task will involve setting up a comprehensive, regularly updated RECCA website, complemented by an online interactive RECCA web portal clearinghouse.

147. RECCA partners will, henceforth, participate in RECCA in three ways: via yearly one-day meetings in various regional capitals; via in-person diplomatic meetings during the Implementation Phase; and via the RECCA web portal. The website and portal will be updated regularly—including by partners themselves—with developments in project implementation, feasibility studies, working groups, treaties/agreements, etc. Henceforth, RECCA intergovernmental meetings will continue to be fully regional in ethos, but they will occur once a year and for one-day only, alongside associated one-day gatherings for regional business leaders and scholars.

148. RECCA is poised to further enhance the regional economic integration of Central South Asia, in part, by facilitating feasible infrastructure projects and, in part, by functioning as a principal clearinghouse for regional economic development. On the one hand, this encompasses a viable economic strategy for the region, complementary to CAREC, SAARC, ECO, and other regional economic initiatives. On the other hand, for those partners continuing to experience selective regional instability, it will also support a medium and long term security strategy, feeding into and complementing the Istanbul "Heart of Asia" Process. 2015 marks a turning point in the 10-year history of RECCA, with RECCA-VI serving as a go-to focal point for increased cross-border trade, transport, transit, and investment. In connection with the profound shifts underway in the geo-economic context for Afghanistan and the region, RECCA is playing a pivotal role in working to achieve new levels of regional cooperation and economic prosperity.

Annex 1: Results and Performance Matrix

Involved Ministries / Organizations: MoMP, MoPW, MoT, MEW, MRRD, MoLSAMD, MoCI, MoF, MoFA, MoICT, ANDMA, ACCI, AISA, and the Central Bank of Afghanistan			
Vision Statement: Creating a more stable and prosperous region through a stable and prosperous Afghanistan; Advocating for the centrality of Afghanistan in facilitating greater cooperation across Central and South Asia.			
NARATIVE (Examples)	EXPECTED RESULT (Examples)	INDICATORS (Examples)	HOW TO VERIFY INDICATORS
GOAL	IMPACT		
To contribute to regional stability and prosperity through increased regional trade and invest, and to enhance the conditions for Afghanistan to resume its central role as a land-bridge between Central Asia and Eurasia, South Asia, the Middle East, and the Far East.	<ul style="list-style-type: none"> Regional stability and prosperity enhanced. Trade and investment opportunities increased. 	<ul style="list-style-type: none"> Status of regional stability. % increase in exports and imports. % increase in foreign and domestic investment GDP, employment, and public revenue increases. 	National Survey / National Accounts
OBJECTIVES	OUTCOMES		
To increase international respect and understanding for Afghanistan's historical role as a crossroads for people, commerce, and ideas. In this endeavour, Afghanistan will take steps to publicize its Inner and Outer regions and its pivotal role in expanding the Asian Highway Network and Eurasian trade connectivity.	<p>Outcomes FINAL:</p> <ul style="list-style-type: none"> Enhanced regional cooperation provides Afghanistan an opportunity to connect landlocked energy rich Central Asia with warm water ports in energy deficient South Asia. Enhanced regional economic activity enables Afghanistan to better meet its development challenges. <p>INTERMEDIATE</p> <ul style="list-style-type: none"> Trained personnel deployed to support specific regional economic cooperation tasks. Regional cooperation affairs coordinated. Line Ministries perform their defined tasks. 	<ul style="list-style-type: none"> Afghanistan actively participates in regional bodies, including on reducing barriers to regional trade and transit. Trans boundary water management issues addressed with Afghanistan's neighbors. # of new, large-scale (high impact) economic development opportunities created. # of significant regional cooperation challenges tackled # of trained personnel deployed to undertake specific regional economic cooperation tasks Coordination between Afghan line ministries enhanced on regional economic cooperation. Afghan line ministries perform defined tasks effectively. 	National Survey National Accounts
ACTIVITIES	OUTPUTS		
<p>RAILWAYS:</p> <ol style="list-style-type: none"> Completion of Kolkhozobod – Panji Poyen and Shir Khan Bandar - Kunduz Completion of Jalalabad – Torkham – Torkham - Landi Kutal Completion of Madani Sangon – Shamtegh - Herat Completion of Atamyrat – Imomnazar and Aqina – Andkhoy – Sheberghan Completion of feasibility study and beginning of construction on the Sheberghan – Mazar-e-Sharif – Kunduz line Completion of Torghundi - Herat <ol style="list-style-type: none"> East-West Highway: Construction of Herat - Chagcharan - Gardandewal – Kabul and from Kabul -Jalalabad - Peshawar (KJP) Expressway Rehabilitation of Salang tunnel and Construction of Bypass (Pul-e-Matak – Shibar – Doshi) TAPI: Completion of financing arrangement, selection of transporter and operator; construction work underway by 2014. Completion of the CASA1000- Project (CASAREM): <ol style="list-style-type: none"> Construction of 500 kV AC Transmission Line from Datka to Khojand Construction of 500 kV DC Transmission Line from Sangtuda – Kabul – Torkham - Peshawar (with a capacity of 1300 MW) Completion of Afghanistan-Regional Electric Grid: <ol style="list-style-type: none"> Construction of 500 kV Transmission Line from Mary to Atamyrat - Andkhoy Construction of 220 kV Transmission Line from Andkhoy – Sheberghan - Mazar-e-Sharif Construction of Kokcha Hydro Power Plant Connecting Afghanistan to the Regional Fiber Optic Network in Central and South Asia Establishment of a technical vocational training center in Tajikistan and Afghanistan for the region Improvement of regional labor market and facilitating skilled labor exchange at the regional level Development of cross-border economic border zones for mutual investment activities between Afghanistan and neighboring countries. Customs Harmonization: Introducing consistent procedures and streamlining practices (single window approach to customs) Establishment of joint and regional chambers of commerce with neighboring countries. Transit-Trade Agreements with neighboring countries Establishment of Central Asian Disaster Management Agency 	<p>RAILWAYS:</p> <ol style="list-style-type: none"> Kolkhozobod – Panji Poyen and Shir Khan Bandar – Kunduz railways completed/operational "North-South Rail Line" between Mazar-e-Sharif to Kunduz to Hajigak to Kabul to Aynak to Jalalabad completed/operational Jalalabad – Torkham – Torkham - Landi Kutal railways completed Gorani - Herat railways completed/operational Atamyrat – Imomnazar and Aqina – Andkhoy – Sheberghan railways completed /operational Torghundi - Herat railways completed/operational <ol style="list-style-type: none"> Hirat - Chagcharan - Gardandewal – Kabul and Expressway from Kabul - Jalalabad - Peshawar (KJP) constructed/operational Salang Tunnel Rehabilitated and Pul-e-Matak – Shibar – Doshi, Bypass constructed/operational Financing arrangement of TAPI completed and transporter and operator selected CASA1000- Project (CASAREM): <ol style="list-style-type: none"> AC Transmission Line from Datka (Kyrgyz Republic) to Khojand constructed/operational DC Transmission Line from Sangtuda – Kabul – Torkham – Peshawar constructed/operational Afghanistan Regional Electric Grid: <ol style="list-style-type: none"> Transmission Line from Mary to Atamyrat - Andkhoy constructed/operational Transmissio n Line from Andkhoy – Sheberghan – Mazar-e-Sharif constructed/operational Kokcha Hydro Power Plant (450 MW capacity) constructed/operational Afghanistan connected to the Regional Fiber Optic Network A technical vocational training center in Tajikistan and Afghanistan for the region is established # of skilled workers made eligible for regional labor exchanges Cross-border Economic Zones developed and operationalized Improved customs practices between Afghanistan and its neighbors Increased volume of private sector-led trade and transit Increased volume of regional trade and transit A Central Asian Disaster Management Agency established and operationalized (Headquartered in Kazakhstan with national representation) 	<p>RAILWAYS:</p> <ol style="list-style-type: none"> 50 km rail line in Tajikistan and 61 km rail line in Afghanistan 900 km rail line in Afghanistan 75 km railways in Afghanistan, 23 km railways in Pakistan 62 km railways between the Iranian border and Herat 90 km rail line in Turkmenistan and 108 km rail line in Afghanistan Feasibility study document produced for this 367 km rail line <ol style="list-style-type: none"> 665 km East-West Highway, 142 km Kabul-Jalalabad Highway Upgraded into Expressway and 74 km Jalalabad-Peshawar Expressway 2,86 km of Salang Tunnel road rehabilitated and 275 km of its Bypass constructed TAPI financing arrangement signed; contract of transporter and operator finalized CASA1000- Project (CASAREM) <ol style="list-style-type: none"> 450 km of 500 kV AC Transmission 117 km of 500 kV DC Transmission Line in Tajikistan, 562 km of 500 kV DC from in Afghanistan and 71 km of 500 kV DC Transmission line in Pakistan Afghanistan-Regional Electric Grid: <ol style="list-style-type: none"> 300 km of 500 kV Line in Turkmenistan and 42 km Andkhoy inside Afghanistan 220 km of 220 kV Transmission Line from Andkhoy – Sheberghan - Mazar-e-Sharif MWs of power generated and # of new power users. KMs of new fiber optic cable layed. # of skilled labor workers trained and actively applying their new skills in regional markets # of workers trained in new skills for regional markets and # of skilled workers participating in regional labor exchanges # of functioning cross-border economic border zones % of public revenue increased and average # hours transit time reduced # of functioning joint and regional chambers of commerce established # of Transit-Trade Agreements introduced between Afghanistan and its neighbors # of average casualties due to natural 	National Survey / National Accounts

Central Asia Regional Economic Cooperation program (CAREC): Established by the ADB in 2001. CAREC is a multi-country (including the Central Asian States, Pakistan, Afghanistan, China, Mongolia, and Azerbaijan), multi-institutional alliance that seeks to promote increased coordination in customs, energy, transport, trade facilitation, and trade policy. Afghanistan joined CAREC in 2005.

South Asia Association for Regional Cooperation (SAARC): Founded in 1985, SAARC seeks to promote peace, social justice, and economic prosperity through sixteen "areas of cooperation" among its eight member states (Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka). Afghanistan became a full member of SAARC in April 2007, and it joined the South Asia Free Trade Agreement in February 2008 (with full implementation expected by 2016).

Economic Cooperation Organization (ECO): ECO is a regional intergovernmental organization established in 1985 by Iran, Pakistan, and Turkey for the promotion of economic, technical, and cultural cooperation. In 1992, ECO was expanded to include (again, all Islamic countries): Afghanistan, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. In early 2005, the ECO Trade Agreement (a preferential trade agreement) was signed with the aim of reducing intra-ECO tariffs, non-tariff barriers, and other trade-related charges.

Shanghai Cooperation Organization (SCO): Afghanistan is an observer for this regional "intergovernmental mutual security organization which was founded in 2001 in Shanghai by the leads of China, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan, and Uzbekistan. Other observers include Belarus, India, Iran, Mongolia and Pakistan. Dialogue partners now includes Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka and Turkey.

Special Session of the Regional Advisory Committee of the United Nations Program for the Economies of Central Asia (UNSPECA): The United Nations Special Program for the Economies of Central Asia was launched in 1998 to strengthen sub-regional cooperation in Central Asia and its integration into the world economy. The member countries of UNSPECA are Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. Afghanistan joined UNSPECA in May 2005.

UN Economic and Social Commission for Asia and the Pacific (UNESCAP): As a UN Member State, Afghanistan also participates in activities of UNESCAP.

Central and South Asia Transport and Trade Forum (CSATTF): An initiative of the ADB, this regional forum has facilitated a number of transport and trade related agreements during the past decade.

Organization for Security and Cooperation in Europe (OSCE): In April 2003, Afghanistan became a Partner of the OSCE.

This Economic Impact Assessment team recommends an economy-wide discount (or “hurdle”) rate of 12 per cent for the evaluation of the priority investment projects (PIPs) in Afghanistan, to ensure that they all exceed an objective hurdle of minimal economic viability, for the following reasons. Whilst a full market rate of 15-16% could be applied, as the majority of these projects are being financed by a mix of soft loans and grants, and a number of the IFIs are implementing projects with a 12 per cent hurdle rate applied, this rate is applied here:

- The real interest rate, which represents the opportunity cost of alternative investments, in theory would be the best measure of how the market evaluates risk premiums on loans to good credit risks in Afghanistan. According to accepted economic theory, the real interest rate is quite stable over time, but it is also unobservable. A proxy for the real interest rate is the nominal rate minus inflation.
- Although there are many nominal interest rates in any economy, depending on risk – for example, those on short-term micro-loans to informal sector borrowers – for infrastructure projects, long-term loans to the best commercial borrowers are probably the best basis for calculating the opportunity cost to the investor, because given the opportunity, these are the types of investor one would want to draw into public-private partnerships involved in financing such investments.
- Unfortunately, this measure tends to fluctuate around the (unobservable) real interest rate, because of fluctuations in both the nominal interest rate and the inflation rate deriving from macroeconomic fluctuations (e.g., foreign donor grants and loans) having nothing to do with opportunity cost of alternative investments in Afghanistan. The issue, then, is to derive a proxy measure that is stable over time.
- The commercial bank prime-lending rate in Afghanistan was reported to be 15 per cent at end-2009 (CIA Factbook). The IMF calculated that the consumer price inflation rate was 6 per cent in Afghan year 2009/10 (IMF Country Report No. 10/22, January 2010, p. 19). Based on this, 9 per cent could be a good proxy for the real interest rate in Afghanistan. This is also broadly in accord with the “real” interest rate as measured by the World Bank, using a GDF deflator, which was 9.6 per cent in 2009, the most recent year for which data were available.
- But there are only three data points available – 2007, 2008 and 2009 – for which this measure has been calculated by the Bank, and even during this short period, the rate has fluctuated widely -- from less than 9 per cent to more than 10.5 per cent.
- It is also the case that in an economy currently experiencing major banking sector upheavals, the commercial bank rate may not be a viable measure of the opportunity cost of investment for the best borrowers, because access to credit may not have been provided entirely on commercial terms. In such an environment it makes sense to ask a risk premium to account for the added commercial risk of investments, even on loans to the country’s best commercial borrowers.
- One way to approach this is to take into account the opportunity cost of capital utilized by the major donors in Afghanistan. The Asian Development Bank, for example, has a policy to set its discount (or “hurdle”) rate at 12 per cent for all infrastructure projects. This adds a 2 per cent - 3 per cent risk premium on the current estimate of the “real” inflation rate for the country’s best commercial borrowers.

It is worth noting, however, that the methodology allows priority infrastructure projects to be ranked according to their Economic Rates of Return, using broadly consistent assumptions, and calculated independently of the discount rate.

Annex 4: Harmonized System Product Codes

HS Product Code	Product Description
01	Live animals
02	Meat and edible meat offal
03	Fish & crustacean, mollusc & other aquatic invertebrate
04	Dairy prod; birds' eggs; natural honey; edible prod nes
05	Products of animal origin, nes or included.
06	Live tree & other plant; bulb, root; cut flowers etc
07	Edible vegetables and certain roots and tubers.
08	Edible fruit and nuts; peel of citrus fruit or melons.
09	Coffee, tea, matt and spices.
10	Cereals
11	Prod.mill.indust; malt; starches; inulin; wheat gluten
12	Oil seed, oleagi fruits; miscell grain, seed, fruit etc
13	Lac; gums, resins & other vegetable saps & extracts.
14	Vegetable plaiting materials; vegetable products nes
15	Animal/veg fats & oils & their cleavage products; etc
16	Prep of meat, fish or crustaceans, molluscs etc
17	Sugars and sugar confectionery.
18	Cocoa and cocoa preparations.
19	Prep.of cereal, flour, starch/milk; pastrycooks' prod
20	Prep of vegetable, fruit, nuts or other parts of plants
21	Miscellaneous edible preparations.
22	Beverages, spirits and vinegar.
23	Residues & waste from the food indust; prep ani fodder
24	Tobacco and manufactured tobacco substitutes
25	Salt; sulphur; earth & ston; plastering mat; lime & cem
26	Ores, slag and ash.
27	Mineral fuels, oils & product of their distillation;etcir distillation;etc
28	Inorgn chem; compds of prec mtl, radioact elements etc
29	Organic chemicals.
30	Pharmaceutical products.
31	Fertilisers.
32	Tanning/dyeing extract; tannins & derivs; pigm etc
33	Essential oils & resinoids; perf, cosmetic/toilet prep
34	Soap, organic surface-active agents, washing prep, etc
35	Albuminoid subs; modified starches; glues; enzymes.
36	Explosives; pyrotechnic prod; matches; pyrop alloy; etc
37	Photographic or cinematographic goods.
38	Miscellaneous chemical products.
39	Plastics and articles thereof.
40	Rubber and articles thereof.
41	Raw hides and skins (other than furskins) and leather.
42	Articles of leather; saddlery/harness; travel goods etc
43	Furskins and artificial fur; manufactures thereof.
44	Wood and articles of wood; wood charcoal.
45	Cork and articles of cork.
46	Manufactures of straw, esparto/other plaiting mat; etc
47	Pulp of wood/of other fibrous cellulosic mat; waste etc
48	Paper & paperboard; art of paper pulp, paper/paperboardlp, paper/paperboard
49	Printed books, newspapers, pictures & other product etc
50	Silk.

HS Product Code	Product Description
51	Wool, fine/coarse animal hair, horsehair yarn & fabric
52	Cotton.
53	Other vegetable textile fibres; paper yarn & woven fab
54	Man-made filaments.
55	Man-made staple fibres.
56	Wadding, felt & nonwoven; yarns; twine, cordage, etc
57	Carpets and other textile floor coverings.
58	Mineral fuels, oils & product of their distillation;etc; lace; tapestries etc
59	Impregnated, coated, cover/laminated textile fabric etc
60	Knitted or crocheted fabrics.
61	Art of apparel & clothing access, knitted or crocheted.
62	Art of apparel & clothing access, not knitted/crochetedot knitted/crocheted
63	Other made up textile articles; sets; worn clothing etc
64	Footwear, gaiters and the like; parts of such articles.
65	Headgear and parts thereof.
66	Umbrellas, walking-sticks, seat-sticks, whips, etc
67	Prepr feathers & down; arti flower; articles human hair
68	Art of stone, plaster, cement, asbestos, mica/sim mat
69	Ceramic products.
70	Glass and glassware.
71	Natural/cultured pearls, prec stones & metals, coin etc
72	Iron and steel.
73	Articles of iron or steel.
74	Copper and articles thereof.
75	Nickel and articles thereof.
76	Aluminium and articles thereof.
77	Lead and articles thereof.
78	Zinc and articles thereof.
79	Tin and articles thereof.
80	Other base metals; cermets; articles thereof.
81	Other base metals; cermets; articles thereof.
82	Tool, implement, cutlery, spoon & fork, of base mtl etc
83	Miscellaneous articles of base metal.
84	Nuclear reactors, boilers, mchy & mech appliance; parts
85	Electrical mchy equip parts thereof; sound recorder etc
86	Railw/tramw locom, rolling-stock & parts thereof; etc
87	Vehicles o/t railw/tramw roll-stock, pts & accessories
88	Aircraft, spacecraft, and parts thereof.
89	Ships, boats and floating structures.
90	Optical, photo, cine, meas, checking, precision, etc
91	Clocks and watches and parts thereof.
92	Musical instruments; parts and access of such articles
93	Arms and ammunition; parts and accessories thereof.
94	Furniture; bedding, mattress, matt support, cushion etc
95	Toys, games & sports requisites; parts & access thereof
96	Miscellaneous manufactured articles.
97	Works of art, collectors' pieces and antiques.
98	UN Special Code
99	UN Special Code

Annex 5: Government Ministries & Agencies Consulted for RECCA Preparation

Based on Alphabetical Order

The preparations for the RECCA-VI could not have been completed without the generous contribution of all ministers, deputy ministers, director generals, directors and heads of departments, technical and advisory teams of line ministries and agencies, who have been directly or indirectly involved in supporting of RECCA process.

National and international agencies participated actively in the RECCA consultations. Their contributions, comments and suggestions strengthened the RECCA preparations, ensuring its practical implementation. Ministry of Foreign Affairs, as a main focal point for the RECCA process, has organized two rounds of consultations at the deputy minister level, one consultation at the economic sector ministerial level and four roundtables on specific regional economic cooperation topics at the director general, technical and experts level. The following list includes individuals who have supported as well as participated at the RECCA coordination and consultation meetings.

Ministers		
No	Name	Position
1	Abdul Sattar Murad	Minister of Economy
2	Eng. Ali Ahmad Osmani	Minister of Energy & Water
3	Assadullah Zamir	Minister of Agriculture, Irrigation & Livestock
4	Dr. Daud Shah Saba	Minister of Mines & Petroleum
5	Eklil Ahmad Hakimi	Minister of Finance
6	Humayoon Rasaw	Minister of Commerce & Industries
7	Eng. Mahmood Baligh	Minister of Public Works
8	Dr. Mohammadullah Batash	Minister of Transportation
9	Dr. Nasrin Oriakhil	Minister of Labor, Social Affairs, Martyrs & Disabled
10	Abdul Razaq Vahidi	Minister of Communication & Information Technology
Head of Government Agencies		
11	Khalil Sediq	Governor of Da Afghanistan Bank
12	Mohammad Qurban Haqjo	General Director of Afghanistan Investment Support Agency
13	Mostapha Zaher	General Director of National Environmental Protection Authority
14	Razique Samadi	General Director of Da Afghanistan Breshna Sherkat
Deputy Ministers		
15	Eng. Abdul Qudos Hamidi	Deputy Minister of Mines & Petroleum
16	Eng. Amruddin Salik	Deputy Minister of Urban Development (Housing)
17	Eng. Baryalai Hassam	Deputy Minister of Communication & Information Technology (Technical)
18	Ghulam Faruq Qazizada	Deputy Minister of Energy & Water (Energy)
19	Gul Maqsood Sabit	Deputy Minister of Finance (Custom)
20	Dr. Hesamuddin Hesam	Deputy Minister of Labor, Social Affairs, Martyrs & Disabled (Labor)
21	Jarullah Mansoori	Deputy Minister of Transportation (Policy)
22	Mir Javid Sadat	Deputy Minister of Mines & Petroleum
23	Mir Amanudin Haidari	Deputy Minister of Agriculture, Irrigation & Livestock (Technical)
24	Mohammad Isamil Rahimi	Deputy Minister of Economy (Technical)
25	Mohammad Sarwar Azizi	Deputy Minister of Education (Technical)
26	Dr. Mohammad Mustafa Mastoor	Deputy Minister of Finance
27	Mohammad Osman Baburi	Deputy Minister of Higher Education (Technical)
28	Muzammil Shinwari	Deputy Minister of Commerce & Industries (Trade)
29	Eng. Noor Gul Mangal	Deputy Minister of Public Works (Technical)

Annex 5: Government Ministries & Agencies Consulted for RECCA Preparation

Based on Alphabetical Order

Other Ministerial Officials		
No	Name	Position
30	Abdul Bari Sediqi	Railway Director of Ministry of Public Works
31	Abdul Haleem Sadry	Regional Custom Operational Director of Ministry of Finance
32	Abdul Saboor Nasimzada	Afghanistan Telecom Regulatory Authority
33	Ahmad Shah Atayee	Budget Department, Ministry of Finance
34	Eng. Amanullah Ghalib	Renewable Energy Director, Ministry of Energy and Water
35	Ajmal Ayan	Commissioner, Afghanistan Telecom Regulatory Authority
36	Abdul Wasi Arian	Plan & Evolution Director of Ministry of Education
37	Abdul Wadod Ghorbandi	Plant Protection Director of Ministry of Agriculture, Irrigation & Livestock
38	Ahmad Shakil Hazim	Policy Director of Ministry of Economy
39	Dr. Elham Shahin	Foreign Relations Director of Ministry of Higher Education
40	Fawzia Ehsani	Foreign Relations Director of Ministry of Transport
41	Firoz Khan Masjidi	Plan & Policy Director of Ministry of Commerce & Industries
42	Ghulam Mohammad Malikyar	Deputy Director of National Environmental Protection Authority
43	Ghulam Rabani Haqiqatpal	Statistic & Marketing Director of Ministry of Agriculture, Irrigation & Livestock
44	Hamidullah Faizy	Head of Infrastructure Sector Budget Department, Ministry of Finance
45	Hashim Hekmat	Industrial & Connectivity Director of Ministry of Economy
46	Hassamudin Taluqani	Director, Ministry of Labor, Social Affairs, Martyrs & Disabled
47	Ibrahim Frotan	Director, Protection and Prevention of Pesticides, Ministry of Agriculture
48	Eng. Humayon Kohistani	Energy Program Director of Ministry of Energy & Water
49	Eng. Humayoun Qaem	Director of Planning, Ministry of Urban Development
50	Khair Mohd Niru	HR General Director of Ministry of Labor, Social Affairs, Martyrs & Disabled
51	Khalilullah Abawi	Air Transportation Law & Pacts Director of Afghanistan Civil Aviation Authority
52	Mah Rukh Yousifi	Coordination Director of Ministry of Women Affairs
53	Mirwais Alami	Business Director of Da Afghanistan Brishna Sherkat
54	Mohammad Ali Maher	Housing Development Manager, Ministry of Urban Developemt
55	Mohammad Qasim Haidari	Deputy Director of Afghanistan National Disaster Management Authority
56	Mohammad Qasim Nasiri	Foreign Relation Director of Afghanistan Chamber of Commerce & Industries
57	Mohammad Qasim Wafiezada	Policy & Plan Director Afghanistan Civil Aviation Authority
58	Mohammad Rahim Momand	International Trade General Director of Ministry of Commerce & Industries
59	Mohammad Saber Pardis	Policy & Plan Director of Ministry of Labor, Social Affairs, Martyrs & Disabled
60	Mustafa Aria	Donor Assistance Director of Ministry of Finance
61	Naib Khan Jamal	Policy Monetary Deputy Da Afghanistan Bank
62	Najibullah Amirzai	Policy Director of Ministry of Mines & Petroleum
63	Najibullah Wardak	Customs General Director of Ministry of Finance
64	Nangialai Meiakhil	Planning Manager of Da Afghanistan Brishna Sherkat
65	Neak Mohammad Mohibi	Budget Manager for Infrastructure Sector, Ministry of Finance
66	Numan Tarin	Director of Minerals Development, Ministry of Mines and Petroleum

Annex 5: Government Ministries & Agencies Consulted for RECCA Preparation

Based on Alphabetical Order

Other Ministerial Officials		
No	Name	Position
67	Salim Bedyā	Policy Director of Ministry of Public Works
68	Sayed Abdul Hussain	CED Director of Ministry of Agriculture, Irrigation & Livestock
69	Sayed Yahya Akhlaqi	Transit Director of Ministry of Commerce & Industries
70	Shukria Kazimi	Program Implementation Manager of Ministry of Finance
71	Ustad Wasifi	Policy Executive Director of Ministry of Finance
72	Waheedullah Popalzai	Insurance Director of Da Afghanistan Brishna Sherkat
73	Mohammad Yamma Shams	Director General and CEO, Afghanistan Railway Authority, Ministry of Public Works
75	Yasin Haidari	Manager of International Organizations, Ministry of Transport
76	Zaki Popal	Air Traffic Control Acting Director Afghanistan Civil Aviation Authority
77	Eng. Zia Gul Saljoki	Director General of Planning, Ministry of Energy and Water
78	Zolfiqar Baloch	International Director of National Environment Protection Agency
Advisors and Experts		
79	Abdul Basir Rahmani	Economic Expert to Ministry of Transportation
80	Abdul Kabir Ranjbar	Legal Advisor to Afghanistan Investment Support Agency
81	Ahmad Tariq Matin	Regional Organizations Manager of Ministry of Commerce & Industries
82	Ataullah Asem	Advisor to Deputy Minister of Finance
83	Daud Majeed	Advisor to Ministry of Higher Education
84	Daud Musa	Advisor to Afghanistan Chamber of Commerce & Industries
85	Fazlullah Fazli	Renewable Energy Advisor to Ministry of Energy & Water
86	Emal Hakim	Advisor to Ministry of Finance
87	Khatol Sediq	Economic Advisor to Ministry of Women Affairs
88	Mohammad Hanif Sufi Zada	Advisor to Ministry of Agriculture, Irrigation & Livestock
89	Muhsin Amin	ICE Commission Advisor to Ministry of Economy
90	Nabila Moradi	Policy and Program Advisor, Ministry of Mining and Petroleum
91	Nisar Ahmad Masoud	Regional Trade Advisor to Ministry of Commerce & Industries
92	Qiam Mukhtar	M&E Expert
93	Samir Amiri	Advisor to Ministry of Education
94	Shakir Majeedi	Advisor to Ministry of Agriculture, Irrigation & Livestock
95	Shukria Kazimi	Program Implementation Manager of Ministry of Finance
96	Wais Ahmad Taraki	Advisor to Ministry of Communication & Information Technology
Private Sector		
97	Atiqullah Nusrat	Chief Executive Officer, Afghanistan Chamber of Commerce and Industries
98	Abdul Qadir Bahman	Deputy Director of Afghanistan Chamber of Commerce & Industries
99	Daud Musa	Advisor to Afghanistan Chamber of Commerce & Industries
100	Zia Azizi	International Relations Officer, Afghanistan Chamber of Commerce and Industries

The Sixth Regional Economic Cooperation Conference on Afghanistan (RECCA-VI)

A Partnership for Promoting Regional Economic Growth & Stability: The Silk Road Through Afghanistan

Kabul, Afghanistan, 3-4 September 2015

- 1 The Sixth Regional Economic Cooperation Conference on Afghanistan (RECCA-VI) met in Kabul, Afghanistan on 3-4 September 2015 to further develop and consolidate cooperation and partnership towards promoting regional economic cooperation in Afghanistan and across the region. Inaugurated by His Excellency Mohammad Ashraf Ghani, President of the Islamic Republic of Afghanistan, the Conference was chaired by His Excellency Salahuddin Rabbani, Foreign Minister of the Islamic Republic of Afghanistan. High-level Delegations and senior representatives from over 60 states and organisations took part in this historically significant gathering, celebrating the 10th Anniversary of the RECCA Process.
- 2 The RECCA-VI participants welcomed the commitments made at the 5 December 2011 "Bonn International Conference on Afghanistan", the 8 July 2012 "Tokyo Conference on Afghanistan", the strong international support demonstrated for Afghanistan's continued progress towards stability and development, including during the "Transformation Decade of 2015-2024", as well as the 3-4 December 2014 London Conference on Self-Reliance;
- 3 The Participants welcomed the continued success of the Heart of Asia Istanbul Process on Regional Security and Cooperation for a Secure and Stable Afghanistan, and anticipating closer linkages and complementarities between RECCA-VI prioritized projects and the Heart of Asia Istanbul Process;
- 4 The Participants emphasized that the Kabul Conference builds on the enduring nature of the commitments made during the previous five meetings of the Regional Economic Cooperation Conference on Afghanistan (Kabul, 2005; New Delhi, 2006; Islamabad, 2009; Istanbul, 2010; Dushanbe, 2012);
- 5 The Participants welcomed the commitment of partner countries, the United Nations, the European Union, and the international financial institutions in the region to play an active and contributing role in the implementation of the outcomes of RECCA-VI;
- 6 The Participants broadly concurred that coordinated regional economic development strategies should support the overall regional economic integration vision, and emphasising shared ownership of the work towards comprehensive regional connectivity and its importance in promoting region-wide economic integration, confidence, and prosperity;
- 7 The Participants took note of major investments in two major corridor agreements (as outlined in the main conference report) which could provide Afghanistan and others in the region with considerable opportunities for enhanced trade and transit benefits;
- 8 The Participants took note of the Lapis Lazuli Corridor as a promising multimodal transit trade and transport route among Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey in order to augment transport infrastructure and connectivity in the region, thereby increasing trade and transit among the countries partnering in this new transport corridor;
- 9 The Participants took note of the "One Belt - One Road" initiative launched by China and its comprehensive potential benefits for the economic and social development of East Asia, Central Asia, and South Asia;
- 10 The Participants recognized the benefits of the Northern Corridor, Middle Corridor, and Southern Corridor for the development of multimodal transport and logistics facilities between Asia and Europe and their sizable contribution to the linkage across existing markets as well as the creation of new markets;

- 11 The Participants took note of the Five Nations Railway Corridor connecting trans-Asian urban centers in order to enhance intra-regional trade and transit, and also to facilitate greater regional economic integration by constructing a railway network linking China to Iran via Afghanistan, Tajikistan, and Kyrgyzstan;
- 12 The Participants recognized the key importance of the Turkmenistan, Afghanistan, Pakistan, India Gas Pipeline Project (TAPI) and the Central Asia-South Asia Power Transmission Project (CASA-1000) in developing regional cooperation on this energy corridor, and welcoming the joint efforts of participant countries and international financial institutions towards the implementation of these projects.
- 13 The Participants recognized the need to build connectivity in the region in order to help bridge the digital divide, enhancing information sharing between countries in the region, and welcoming the ESCAP's (Economic and Social Commission for Asia and the Pacific) Asia-Pacific Information Superhighway Initiative and Afghanistan's efforts to build a rapid and secure data transit pathway;
- 14 The Participants recognized the need to continue initial discussions with new financiers including Sovereign Wealth Funds, the New Development Bank (NDB), Asian Infrastructure Investment Bank (AIIB), as well as to develop new project financing modalities such as public-private partnerships and power purchase agreements;
- 15 The Participants took note of the need to supplement the RECCA platform with post-conference investment road-shows and an on-line interactive web portal, showcasing bankable investment project to prospective financiers and regional governments;
- 16 The participants had a general concurrence on investment priority for projects (as outlined in the main conference report) capable of demonstrating progress in 12-18 months, being scalable in the next 2-3 years, and generating tangible returns on investment for Afghanistan's neighbours in the areas of regional transport, energy, trade and transit that are designed to serve as critical pieces of infrastructure in wider regional economic integration efforts in South and Central Asia, the Middle East, and the Caucuses;
- 17 The participants had also a general concurrence on investment priority projects that are designed to function as specific pieces of the Lapis-Lazuli Transit Trade and Transport Route Agreement, Chabahar Trilateral Transport Agreement (and Garland Highway), and the Five Nations Railways Corridor, which have tangible prospective economic and financial benefits – direct and indirect – for the regional partners;
- 18 Informed by the illustrative projects and new project financing modalities outlined in the RECCA-VI main conference report, the participants made clear their awareness of the need to take serious and measurable steps towards the implementation of a modest range of infrastructure priority projects;
- 19 The participants agreed on the need to expedite the illustrative bankable projects with the intended purpose of making concrete progress in financing and implementation in the short and medium term, including through support provided by the two economic Confidence Building Measures of the Heart of Asia Istanbul Process.
- 20 International financial institutions and development banks are especially called upon to identify innovative approaches to financing regionally beneficial projects, as well as recognized the importance of the RECCA-VI international investment road shows in order to showcase priority regional public-private investment partnerships in the months and years ahead.
- 21 The Chairman offered his gratitude to the participants of the Conference, the Academic Forum, and the Business Exhibition for their extraordinary commitment to the high-level discussions of the conference.
- 22 The Chairman thanked the Government of Tajikistan for hosting the fifth RECCA in 2012 in Dushanbe, and the Chairman offered his gratitude to the Government of Turkmenistan to host the next RECCA meeting in 2017.

By 2025 Central Asia and South Asia are projected to become a global economic center of gravity for trade and economic growth, though this diverse and industrious region lacks the physical connectivity and infrastructure necessary to make this happen. To avail itself of this historic opportunity, Central and South Asia must pursue integration by building dynamic rail and road corridors, constructing bridges and inland multi-modal ports, and integrating energy and trade governance systems. RECCA's mission is to facilitate, in collaboration with a range of international partners, this once in a lifetime transformational opportunity.

Salahuddin Rabbani
Minister of Foreign Affairs
Islamic Republic of Afghanistan

