

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. Conflict and security challenges have inhibited the development of energy infrastructure and human capacity in Afghanistan. The energy sector's performance is affected by technical, financial, and governance deficiencies and a lack of integrated energy planning. More than 65% of sector investments bypass the government's core budget and planning systems, leaving sector ministries and agencies with limited information on the projects funded by development partners. The sector stakeholders are diverse and include five government ministries, four key development partners, private sector participants and civil society organizations. This continues to make the critically important harmonization and sequencing of investment plans difficult.

2. Afghanistan's energy road map and investment plans for power and gas, including renewable energy development, are integrated in the National Energy Supply Program 2030 (NESP). The NESP focuses on energy supply, transmission and distribution, energy efficiency, reinforcing institutions and private sector participation, and strengthening capacity support and regulation. By 2030, the NESP envisages \$10.1 billion investments with aim to (i) increase electrification rate from 30% to 83% through an integrated power systems, (ii) increase domestic generation from 20% to 67%, and (iii) strengthening power exchange options.

3. Afghanistan's development partners have focused on rehabilitating the power supply chain, constructing power transmission lines and distribution networks, and providing technical assistance in thematic areas such as energy efficiency, energy trade, energy security, and renewable energy. Several technical assistance projects cover both Afghanistan and neighboring countries. Table 1 summarizes the main investment project financing interventions.

Table 1: Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
World Bank	Emergency Power Rehabilitation Project	2004–2013	125.0
World Bank	Kabul Aybak/Mazar-e-Sharif Power Project	2007–2013	57.0
World Bank	Afghanistan Power System Development Project	2008–2013	60.0
World Bank	Naghlu Hydropower rehabilitation Project	2014–2022	80.0
World Bank	Central Asia South Asia Electricity Transmission (CASA)	2014–2019	400.0
ADB	Infrastructure Rehabilitation and Reconstruction Project	2003–2007	45.1
ADB	Power Transmission and Distribution Project	2005–2013	50.0
ADB	Regional Power Transmission Interconnection Project	2007–2013	47.0
ADB	MFF Energy Sector Development Investment Program, Tranche 1	2008–2018	164.0
JFPR	Development of Mini Hydropower Plants in Badakhshan and Bamyan Provinces	2008–2014	12.0
ADB	MFF Energy Sector Development Investment Program, Tranche 2	2009–2018	81.5
ADB	MFF Energy Sector Development Investment Program, Tranche 3	2010–2016	75.4
ADB	MFF Energy Sector Development Investment Program, Tranche 4	2012–2017	200.0
ADB	MFF Energy Sector Development Investment Program, Tranche 5	2013–2019	49.1
ADB	North–South Power Transmission Enhancement Project	2013–2017	216.0
KfW ^a	Rehabilitation of Pul-e-Khumri Hydropower Plant	2007–2016	42.0
KfW	Decentralized Power Supply in Northern Afghanistan	2011–2016	48.0

Development Partner	Project Name	Duration	Amount (\$ million)
KfW	NEPS Connecting Northern Towns (Phase I–II)	2011–2017	49.0
GIZ ^a	Renewable Energy Development	2007–2015	45.0
USAID	Afghan Clean Energy Program	2010–2011	23.8
USAID	Technical Support to the Afghan Energy Information Center	2009–2011	7.2
USAID	Tarakhil Power Plant Operations and Maintenance Program	2010–2012	28.2
USAID	Kabul and Kandahar Commercialization Support Projects	2009–2012	59.9
USAID	Kandahar Helmand Power Program	2010–2016	266.0
USAID	Power Transmission Expansion and Connectivity Project	2012–2018	814.0
USAID	Sheberghan Gas Development Project	2011–2016	135.0
India	Power Line from Pul-e-Khumri to Kabul	2005–2008	120.0

ADB = Asian Development Bank, GIZ = Deutsche Gesellschaft für Internationale, JFPR = Japan Fund for Poverty Reduction, MFF = multitranchise financing facility, NEPS = north-east power system, USAID = United States Agency for International Development.

^a German development cooperation. In euros.

Source: Afghanistan Energy Information Center, Interministerial Commission for Energy.

B. Institutional Arrangements and Processes for Development Coordination

4. In Afghanistan, harmonizing energy investment plans remains challenging because (i) uncertainty in the development budget has led to a lack of integrated planning; (ii) more than 50% of sector investments funded by bilateral development partners and military funds bypass the government's core budget and planning systems, leaving the government with limited information on these donor-funded projects, plans, and activities; and (iii) security risks impede progress.¹ Bilateral development partners work on annual planning cycles, with budgets available on a use-it-or-lose-it basis, and project priorities may change in line with the fragile and volatile situation in Afghanistan.

5. It is estimated that nearly \$5.0 billion in grant assistance and private sector investment will be provided to the Afghanistan energy sector during 2013–2018. The Inter-Ministerial Commission for Energy (ICE), established in 2006 and supported by the Asian Development Bank (ADB), has proved to be the most effective mechanism for brainstorming and reaching coherent agreements on sector investment and governance agenda.² The ICE continues to support collaboration among stakeholders in (i) sector planning and harmonization to avoid overlapping, (ii) sequencing of investments, and (iii) analytical work related to Afghanistan's energy sector. The ICE holds regular monthly meetings chaired by the minister of economy and attended by more than 30 participants, including the chief executive officer of Da Afghanistan Breshna Sherkat, and relevant ministers and representatives of key development agencies. Regular follow-up will be undertaken by the ICE secretariat through the formulation of meeting minutes, preparation of quarterly status reports, and meetings of technical working groups.

6. In addition to coordinate and monitor implementation progress of the NESP, the ICE is mandated to (i) institutionalize the power master plan; (ii) update the country's energy policy and sector plans, including an operation and maintenance strategy; and (iii) prepare technical reports, through the formation of working groups, to debate and resolve operational issues such as the role of renewable energy, development of a unified national grid, and synchronization of electrical frequency with power systems in neighboring countries.

¹ More than 80% of the Afghan development budget is financed through grants from development partners.

² ADB. 2013. *Technical Assistance to Afghanistan for Supporting the Inter-Ministerial Commission for Energy*. Manila (TA 8328-AFG, \$1.5 million, approved on 22 February).

C. Achievements and Issues

7. ADB is Afghanistan's largest on-budget development partner in the energy sector, with a total approved commitment of nearly \$937 million in assistance. Additional grant funds of \$1.2 billion are programmed from 2015 to 2025, through the Asian Development Fund and the Afghanistan Infrastructure Trust Fund (AIF), to meet the country's evolving energy security needs. Afghanistan is a potential energy resource corridor and transit country between Central and South Asia; and is expected to play a critical part in promoting regional energy trade cooperation. ADB's interim country partnership strategy for 2015–2016, the country operations business plan (2015–2017), and the ADB-managed AIF have made energy the key sector for ADB assistance in Afghanistan.³ ADB has led efforts to formulate the NESP and has acted as development partner focal point in the energy sector. ADB sees a continued need to harmonize and sequence development partner assistance to support implementation of the NESP.

8. The government is implementing the energy sector strategy, road map, policy framework, and envisaged investment plan as confirmed in its power sector master plan, 2012–2032 and gas development master plan, 2015–2035, which build on the Afghanistan National Development Strategy, 2008–2013, integrated as the NESP 2030.⁴ The recently approved Electricity Services Law, 2015, provides the legal and regulatory framework, and transparent structure, for private sector participation. The power sector in Afghanistan has made substantial progress in meeting the strategic objectives and road map milestones set out in 2012, including (i) greater efficiency from existing operations (rehabilitation of hydropower plants, and transmission and distribution networks); (ii) improvement in sector governance (formulation of the electricity law and renewable energy policy, creation of an autonomous power utility, and institutionalization of operations and maintenance system); (iii) promotion of rural electrification (development of off-grid solution and strengthening on-grid networks); and (iv) investments in new capacity (development of additional generation, transmission, and distribution systems). This translated into bridging the technical, fiscal, and governance deficits. The grid-connected population increased from 5% in 2002 to about 30% in 2014; system losses dropped from 70% in 2002 to 30% in 2014; collection rates increased from less than 50% in 2002 to more than 90% in 2014; revenues increased by 15% every quarter since 2009; and sector corporatization was institutionalized and is gaining ground. Lessons incorporated from ADB's ongoing investments in Afghanistan's energy sector include the need to (i) build security provisions into project design and financing, (ii) simplify procurement and implementation through the use of turnkey contracting as the default choice, (iii) improve project readiness through advance actions, and (iv) provide capacity support to Da Afghanistan Bresha Sherkat.

D. Summary and Recommendations

9. Improved development coordination will help increase development effectiveness. Hard and soft development interventions carried out in concerted and coordinated ways will address critical constraints to growth in Afghanistan. There is a critical need to strengthen and sustain this coordination mechanism beyond 2016. The government must establish and institutionalize an office for integrated sector planning, implementation monitoring, tracking, and oversight of the almost \$1 billion of investments in Afghanistan's energy sector each year.

³ ADB. 2014. *Interim Country Partnership Strategy: Afghanistan, 2014–2015*. Manila; ADB. 2014. *Country Operations Business Plan: Afghanistan, 2015–2017*. Manila.

⁴ These programs are being amalgamated into an integrated national infrastructure development plan 2016.