

TRANSPORT SECTOR ROADMAP AND THE INVESTMENT PROGRAM

I. Roadmap

1. Launched in 2008, the government's Afghanistan National Development Strategy (ANDS) is a Millennium Development Goals (MDGs) based action plan and road map for developing the country's transport sector.¹ As described in Pillar 3, Infrastructure, the Transport and Civil Aviation Sector Strategy proposes a safe, integrated transport network that ensures domestic and international connectivity by moving people and goods reliably and at low cost.² In addition to a long list of infrastructure needs in all transport subsectors, ANDS provides a planning and policy framework, specific development targets and dates for achievement, and an overall strategic vision to guide investment and reforms in the transport sector until 2020.

2. In 2010, ANDS was refined and updated with a more specific list of priority programs and projects in the form a Prioritization and Implementation Plan (PIP). ANDS-PIP provides a more detailed results-based structure of programs and components of how a new government cluster coordination mechanism will support bringing about targeted focused results.³ A driving factor in the ANDS-PIP is readiness for the Transition Process. The 2011-2014 Transition Process agreed between the government and the international community envisages that Afghanistan will assume the lead role in all aspects of governance, development, and peace.⁴ In addition to ongoing political and military processes, sustainability of the transition requires a development support package to reinforce the social contract between government and its citizens. Rapid restoration of essential services and vital infrastructure assists in the perception of a return to normality and contributes to an irreversible transition process.

3. As a means to map out the process in each of the different clusters and assign performance indicators and targets, ANDS-PIP identifies National Priority Programs. One such identified program within the Economic and Infrastructure Development Cluster is Program 1: National Regional Integrated Resources Corridor Initiative (NRIRCI). This flagship transport oriented program focuses on developing the critical infrastructure needed to reap benefits directly from large scale, environmentally friendly exploitation Afghanistan's mineral resources and indirectly from increased trade flows and labor mobility. The program aims to deliver shared-use road, rail, aviation, power and water systems in order to, inter alia, establish Afghanistan as a strategic land bridge that connects the East to the Middle East through to Western Europe and to Central and South Asia. If successful, it will drive a surge in national revenues, which would pave the way for discretionary finance to support nationally driven development objectives.

4. NRIRCI proposes rehabilitation and upgrading of Afghanistan's national and regional trade links with Iran, Pakistan, Tajikistan, Turkmenistan, and more broadly with the People's Republic of China and Central Asia. The general concept is for restoration and further development of a multimodal transport network connecting natural resources, local production points, and urban centers with markets abroad. Building on the selection criteria used in ANDS-PIP, NRIRCI assesses priorities based on:

¹ Islamic Republic of Afghanistan (2008). *Transport and Civil Aviation Strategy 1387-1391 (2007/08-2012/13), Pillar III, Infrastructure, Afghanistan National Development Strategy*. Kabul.

² Hereinafter, the Transport and Civil Aviation Sector Strategy is referred to as the Transport Sector Strategy.

³ Islamic Republic of Afghanistan (2010). *Afghanistan National Development Strategy, Prioritization and Implementation Plan Mid 2010 - Mid 2013, Volumes 1 & 2*. Kabul.

⁴ These three roles are closely aligned with the identified ANDS-PIP clusters of: governance, socio-economic development, and security, respectively.

- Inherent economic potential from natural resources (minerals and hydrocarbons) along and adjacent to a corridor (direct and indirect impact);
- Regional integration potential and stimulation of local and cross-border trade;
- Infrastructure constraints to the realization of the economic potential from natural resources (minerals and hydrocarbons);
- Potential for micro and small and medium enterprise (SME) development;
- Impact on poverty alleviation, especially among disadvantaged communities;
- Connectivity to social centers, remote communities with much needed humanitarian aid and basic public services;
- Economic impact (cost of the project versus time and fuel savings);
- Initial request (upgrading or complementary to previously completed project);
- Potential impact on improved security and stability; and
- Environment impacts.

5. NRIRCI realizes the needs for institutional reform in the transport sector with a particular emphasis on sector-based planning, interagency coordination, and a focus to operations and maintenance (O&M). NRIRCI suggests that the government should be prepared to largely shoulder the O&M costs for the transport sector by the end of 2014. In order to do so, the government has proposed the following:

- Establishment of an initially semi-autonomous Road Authority for management of construction and maintenance of highways, primary and secondary roads.
- Establishment of a National Road Fund.
- Contracting routine and urgent maintenance to the private sector.
- Introduce fuel excise duties on fuel imports to ensure regular funding for maintenance.
- Establishment of an independent Afghanistan Rail Authority.
- Drafting and endorsement of a blueprint for railway sector development in Afghanistan, including clarification of regulatory and operating roles, formulation of a railway legal framework and regulations, and institutional development.
- Establishment of an independent Civil Aviation Authority (CAA).

6. The priority projects and change management efforts included in NRIRCI as well as the institutional, legal, and policy reforms are tightly aligned with the subprojects, outputs, impacts, outcomes of the proposed investment program.

7. NRIRCI is a capital intensive program. Financing of the NRIRCI will build on existing systems, such as government financing, and funding from bilateral and multilateral donor agencies. The government anticipates that major external investors to fund NRIRCI include the ADB, World Bank, European Union (collectively and member states individually), USAID, India, Japan, and other resources that can be mobilized. The recently established Afghanistan Infrastructure Trust Fund (AIF), which is managed by the ADB, will be a key mechanism for infrastructure financing. AIF was set up to address the following constraints to the required infrastructure investment:

- Afghanistan's infrastructure needs exceed the financing capacity of the government or any single agency funding agency; and
- The challenge of coordination and pooling of resources to key government priorities through an efficient and effective financing vehicle.

8. Projects supported by AITF will be cofinanced by Asian Development Bank (ADB). The governments of the United Kingdom and Japan were the first donors to contribute to the AITF with GBP35 million and \$20 million, respectively.

9. Based the selection of priority projects, estimated costs, and commitments to date, the estimated budget shortfall for NRIRCI is estimated at approximately \$2.1 billion.

Table 1: National Regional Integrated Resources Corridor Initiative Budget Summary Table
(\$ millions)

Overall Budget for All Components, 2011-2104		2063
All Components Budget	3689	
Existing Funds and Commitments	1626	
Remaining Needs for All Components	2063	
Overall Budget for Road Component - Budget A		823
Road Component Budget	2074	
Existing Funds and Commitments	1251	
Remaining Needs for Road Component	823	
Overall Budget for Rail Component - Budget B		963
Rail Component Budget	1241	
Existing Funds and Commitments	278	
Remaining Needs for Rail Component	963	
Overall Budget for Aviation Component - Budget C		277
Aviation Component Budget	374	
Existing Funds and Commitments	97	
Remaining Needs for Aviation Component	277	
All costs in Feb 2011 prices.		

Source: Ministry of Mines, National Regional Integrated Resources Corridor Initiative estimates.

II. Investment Program

10. The financing gap for transport infrastructure construction and maintenance indicates the need to mobilize funds from multilateral and bilateral agencies, and the private sector. ADB will provide financial assistance to meet the budget requirements and play a catalytic role through management of the AITF and in mobilizing private sector funding by helping the government create a better investment climate through road transport sector reforms.

11. The sector outcome will be increased demand for transport, particularly road transport, and improved road traffic operation on the rehabilitated regional highways and national roads. The rehabilitated roads will reduce vehicle operating costs and travel time of the domestic, regional, and transit traffic, thereby contributing to the growth of domestic and international trade in the area, promoting regional cooperation with the neighboring countries, and satisfying the requirements of local population in transportation of goods and passengers.

12. The initiative aim to support transport sector policy reform actions is necessary given that: (i) the current planning framework for the transport sector is inadequate; (ii) some of the actions in the transport sector policy framework have not been met; (iii) sustainable maintenance funding strategy, particularly for roads, has not been developed; and (iv) the transport sector should accommodate new challenges, such as cost recovery principles and the potential role of private sector in road construction, operation, and maintenance. Together with other donors, ADB will focus its key agenda for policy dialogue and continue its dialogue with the government to secure stable financing sources for sustainable maintenance of infrastructure. By utilizing a multitranches financing facility (MFF), ADB's approach acknowledges

the need for flexibility and a phased approach. Moreover, given the previous cost overruns experienced by infrastructure projects in the sector, the approach may also assist to bridge the financing gap created by these overruns.

13. The capacity of the existing government agencies in the transport sector remains weak after many years of donor assistance, even though a substantial amount of assistance has been directed towards planning, capacity building and institutional strengthening. ADB will continue supporting the government's efforts to enhance institutions and human resources in the transport sector, namely, the road and rail subsectors through the capacity development concurrently with hands-on infrastructure implementation and management.

14. In summary, the investment program is closely aligned with Afghanistan's observed land transport sector deficiencies, the government's strategies, plans, programs, and initiatives, particularly as described by ANDS, ANDS-PIP, and NRIRCI. As such the investment program will assist in closing the funding gap of the government's roadmap for transport sector development. The tables below illustrate the priority land transport projects of the government over the short, medium, and long term planning horizons and how the ADB investment program will support their planning, design, and implementation.

Table 2: Afghanistan's Land Transport Investment Program^a
(\$ millions)

Item	Estimated Amount
A. Long Term Plan (2011-2020)^b	
1. Road Network Development	1,000
2. Railway Network Development	2,000
B. Medium Term Plan (2011-2017)	
1. Priority Road Infrastructure ^c	550
Kabul-Jalalabad (156 km)	150
Faizabad-Eshkashem (156 km)	150
Jabul Saraj - Nijrab (51 km)	35
Lashkar Gah – Gereshk (33 km)	35
Dar-i-Suf-Yakawlang (182 km)	180
2. Priority Rail Infrastructure	2,100
Mazar-e-Sharif-Shiberghan-Andkhoy-Aqina (225 km) ^d	370
Hairatan-Kunduz-Logar-Kabul-Jalalbad-Torkham (1,060 km) ^e	1,320
Herat-Juno-Samategh (124 km) ^f	160
Kandhar-Spin Boldak-Chaman (121 km)	250
C. Short Term Plan (2011-2014)^g	
1. Priority Road Sections	170
Bagramy-Sapary (50 km)	60
Faizabad-Beharak (44 km)	75
Jabul Saraj - Nijrab (51 km)	35
2. Priority Rail Network Planning and Operations	132
Feasibility Study for Mazar-e-Sharif-Shiberghan-Andkhoy	2
Hairatan-Mazar-e-Sharif Railway Operations and Maintenance ^h	130

^a Estimates based on ANDS, ANDS-PIP, and NRIRCI.

^b It is expected that finance for these items will be extended through the AITF and other co-financing.

^c Designed to be funded and implemented in tranches of ADB MFF Transport Network Development Investment Program.

^d Proposed to be funded under Tranche 3 of ADB MFF Transport Network Development Investment Program and co-financing opportunities will be investigated.

^e Funding secured from private sector mining consortium from the People's Republic of China.

^f Funding pledged by the Government of Iran.

^g Proposed to be financed under Tranche 1 of ADB MFF Transport Network Development Investment Program.

^h Total required funding will be based on freight tonnage realized. Potential gap financing proposed to be financed under Tranche 1 of ADB MFF Transport Network Development Investment Program.

Source: Asian Development Bank estimates.

Table 3: Financing Plan for Afghanistan's Medium Term Plan^a
(\$ millions)

Item	Amount
Asian Development Bank ^b	754
Afghanistan Infrastructure Trust Fund (AITF)	33
People's Republic of China	1,320
Government of Afghanistan	108
Others	435
Total Required	2,650

^a Estimates based on ANDS, ANDS-PIP, and NRIRCI. List is not exhaustive but focused on identified priorities.

^b Asian Development Bank financing only.

Source: Asian Development Bank estimates.

Table 4: Tentative Tranches for ADB MFF Transport Network Development Investment Program

Source	Amount (\$ million)	Share of Total (%)
Tranche 1	232	28.82
Kabul- Jalalabad (Bagramy-Sapary)	Section 1 50 km	
Jabul Saraj - Nijrab	Section 1 51 km	
Faizabad-Eshkashim (Faizabad- Beharak)	Section 1 44 km	
Hairatan - Mazar-e-Shairf Railway Operations and Maintenance Transport Network Management Capacity Development Feasibility Study for Mazar-e-Sharif - Andkhoy Railway		
Tranche 2	235	29.19
Kabul- Jalalabad	Section 2 106 km	
Faizabad-Eshkashem	Section 2 112 km	
Lashkar Gah - Gereshk	Section 1 33 km	
Transport Network Management Capacity Development		
Tranche 3	265	32.92
Mazar-e-Sharif - Andkhoy Railway	225 km	
Dar-i-Suf - Yakawlang	Section 1 101 km	
Transport Network Management Capacity Development		
Tranche 4	73	9.07
Dar-i-Suf - Yakawlang	Section 2 81 km	
Transport Network Management Capacity Development		
Total	805	100.00

Source: Asian Development Bank estimates.