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EDUCATIONAL PROJECT PAPER (PROP)

*002.3*

Country: AFGHANISTAN Project No. 300-11-190-113

Submission date: October 1969 Original X Revision No. \_\_\_\_\_

Project title: National Agriculture Development Services

U.S. obligation spans: FY 71 through FY 73

Physical implementation spans: FY 71 through FY 73

Gross life-of-project financial requirements.

U.S. dollars ..... \$ 959,000

Locally-owned local currency ..... None

Cooperating country cash contribution ..... 720,000  
(in \$ equivalent, current exchange rate)  
*Apr 75 = 41*

Other donor ..... See text

**Total 1,679,000**

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DRAFTED BY: JRM:othermal :viv OFFICE: AG PHONE NO.: 29/00/03 DATE: 10/10/69 APPROVED BY: HSMcClure:D

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## I. SUMMARY DESCRIPTION

### A. Justification and Necessity

The economy of Afghanistan is based on agricultural production. The most significant investments in this economy must then necessarily relate to agricultural inputs and the resultant output.

The need for improvement in the distribution of agricultural inputs and technical knowledge became apparent as research positively identified the specific responses to these inputs and extension demonstrated the economic advantages of their use to the Afghan farmer. The private sector will play a critical role in their distribution and in stimulating the agriculture sector as a whole. The Royal Government of Afghanistan (RGA) has recognized the potential of the private sector in its Third Five Year Plan. A major expanded role for private investment is an integral part of the Plan's strategy. The RGA's Ministry of Agriculture and Irrigation (MAI) does not currently have the required professional capabilities to accomplish the necessary tasks nor does this capability exist elsewhere within the RGA or the country as a whole.

Development Services was initiated in November 1967 (FY 63) as one of three interrelated activities: Research, Extension, and Development Services under the umbrella Project CO2 - "National Agriculture Development".

### B. Significance of Intended Results

It is expected that during the life of this project marketing of agricultural inputs will be transferred to the private sector. The marketing and distribution of fertilizer and seed will be used initially to manifest how this can be done, thus setting a pattern for the marketing - within the private sector - of other agricultural inputs necessary for expanding and accelerating agricultural production.

An adequate number of competent farm machinery operators and mechanics for both government and private organizations would result from the establishment of an agricultural machinery training institute.

### C. Project Targets

The following targets are contributory to the overall program goal of economic growth as it relates to agriculture.

1. To promote and encourage the development of agri-business in the areas of seed production, processing and distribution, fertilizer sales and distribution, agricultural chemical sales and distribution, and general farm production support inputs. In order to achieve this target the RGA will need to adopt and execute policies which will create a climate favorable for private enterprise.

2. To organize and place in operation a Government Seed Registration and Certification Service. A blueprint for the establishment of such a service or agency will be provided to the MAI and assistance given for the establishment of a national seed laboratory with the necessary rules and standards, and the personnel to operate the facility.

3. To organize a crop improvement association or similar organization to promote production of pure seed by interested farmers or agri-business-minded individuals or groups.

These organizations will be established as farmer-oriented seed improvement associations.

4. To train by FY 72 a technical and operating staff of instructors in farm machinery repair techniques, maintenance and operation. Subsequently, the staff of instructors will be responsible for training a field level staff in farm machinery repair, preventive maintenance and proper operation.

Major emphasis within this target must be placed on the operation, preventive maintenance and repair of agricultural production and processing machinery.

#### D. Minimum Levels of Out

In order for the above targets to be met and as a prerequisite to continuing U.S. support of this project, the MAI must (1) formulate plans and take effective steps to phase out its subsidy on fertilizer and make opportunities available to private individuals to import and sell fertilizer with an adequate allowance for profit; (2) provide the necessary annual budget for the achievement of the stated targets; (3) provide the necessary counterparts and trainees for both participants and in-service training; and (4) provide production incentives by maintaining an adequate support price on the major food grain - wheat.

#### E. General Approach and Plan of Action

As stated in the project targets, this project is directed <sup>mainly</sup> toward building the agri-business sector of the Afghan economy. In an agricultural economy which is based primarily on subsistence production and in transition from this level to surplus production requires the simultaneous development of certain basic activities. In the initial stages the following fundamental elements will be addressed: the supply of basic inputs such as fertilizer and improved seed, the development of basic mechanical skills for the operation and maintenance of agriculturally-related machinery, the storage, processing and marketing of agricultural produce.

This project will require the assistance of an estimated 14 man years of advisory services, along with an estimated 12 man years of participating agency team services in (1) fertilizer and agricultural chemical marketing; (2) development

of a seed industry; (3) the training of a cadre of mechanics specifically oriented to agricultural machinery; (4) and in-service training of operators for this machinery.

Participant training in the U.S. and nearby countries will be concentrated in these four areas.

## II. SETTING OR ENVIRONMENT

### A. Program Relation Between Project Targets and the Third Five-Year Plan (Dev.)

1. The potential of the private sector has been recognized in the Third Five-Year Plan. An expanded role for private investment is an integral part of the Plan's strategy.

2. Self-sufficiency in wheat by 1972 is a major goal in the Five-Year Plan. This target is attainable only if the necessary inputs, e.g. seeds and fertilizer, are supplied.

3. An increase in both the quantity and quality of agricultural exports, primarily horticultural crops, is expected in the 5-year period ending in 1972.

4. Processed vegetable oils are imported in considerable quantities each year. The five-year Plan calls for accelerated programs of oil seed crops which are designed to relieve this importation.

### Obstacles to Overcome for the Project to be Successful

1. The deficiency, within the Development Services section of the PDI, of adequate and permanent counterparts and students for training.

2. The absence of established distribution channels for agricultural inputs within the country. Transportation, for example, ranges from adequate highways to animal pack trails in many production areas.

3. The inadequacy of existing short-term agricultural production credit to the Albanian farmer makes nearly impossible the widespread use of agricultural inputs such as improved seed and fertilizer.

4. The present budget and fiscal administration has difficulty in providing sustained and timely financial support to the various segments of the project throughout the year.

### III. STRATEGY

#### A. Approaches or Techniques

The first ~~objective~~<sup>task</sup> of this project is to identify the components necessary to attract private enterprise and at the same time define the role of the government agencies during the transition from government to private operation with reference to agricultural inputs.

The strategy to be undertaken during this interim period is to develop an agricultural input distribution system and administrative capabilities within the MAI which will hasten a lateral shift of these responsibilities to the private sector for procurement within country distribution and sales. Consequently, it is planned that the tactics within this transition period will follow a course of action along those lines:

1. Establish an effectual basic organization within the MAI to serve as a functional institution in administering the required retailing, distributing and importing of agricultural inputs. The development of this institution is being executed with the specific knowledge that it will be relieved of these responsibilities by approximately FY 72. Thereafter, this institution will assume the proper role of undertaking the regulatory responsibilities within the government.
2. Expand the presently limited "bonded dealer" concept so as to establish during the next two years a nationwide network of village level retail agricultural input dealerships.
3. Continue to seek and solicit private entrepreneurs to undertake the sole responsibility for distribution of agricultural inputs.
4. Commence to shift responsibility for the distribution of agricultural inputs which are presently located in provincial and regional level MAI warehouses over to private entrepreneurs who in turn shall serve as distributors to village "bonded dealers".
5. Continue to phase out the present subsidy policy and transfer all responsibility for the importation of required agricultural inputs to the private sector.
6. As a result of this cooperation between the government and the private sector distribution of agricultural inputs will be achieved in a satisfactory manner, thus permitting the MAI to assume actively the full responsibilities of a regulatory nature which are rightfully normal duties of government.

Without proper preparatory work, the impact of a large increase of wheat production upon traditional marketing and storage can be calamitous in Afghanistan. During the past crop year and in future years Afghanistan will experience increases

in crop food grain production, but the marketing network and storage capacity have not been prepared to cope with the increased production.

The food deficit psychology which underlines future planners and policy makers to anticipate these results is not limited to developing nations. Also, the slowness with which the food deficit psychology dies has important consequences in terms of government pricing policy. The fact that agriculture, even semi-subsistence agriculture, does respond to prices, is only gradually becoming accepted. But the shock which quantum <sup>jumps</sup> in food production may have on domestic prices has not been sufficiently appreciated. Downward pressure on prices, especially where transportation is deficient and storage inadequate, may in fact be so severe as to have a disincentive effect on producers.

Premature discouragement could produce a revision leading to a slowing up of production or even a rejection of the new technology.

Although reliable data are not available at this stage, Afghanistan appears to be approaching self-sufficiency in food and possibly surplus production of wheat. Further assistance in the problems outlined above will be needed at some date in the near future for which Afghanistan likely will request U.S. assistance.

Participants will be trained in the U.S. and neighboring countries. This training will relate primarily to the RGA's role of establishing quality standards and administration of these standards. Private sector development will be assisted through consultation with USAID technical advisors.

#### B. Cooperating Country Leadership

The responsible individuals within the Ministry of Agriculture and Irrigation presently are encouraging the involvement of the private sector in the distribution of agricultural inputs; however, the real leadership in the development of private enterprise is to be provided by the private sector itself. This leadership will constantly be sought out and nurtured in order to carry out this project successfully. The past role of private enterprise in economic development is not well established, and therefore, is vaguely understood. A few entrepreneurs, however, are now beginning to emerge and the prospects for private participation in the economy is brighter now than ever before. RGA officials still tend to be over cautious in planning and involving the private sector in developmental schemes.

#### C. Cross Relationships

An adequate and continuous supply of improved agricultural inputs, as identified by research, must reach a significant number of farmers in order to have a material effect on agricultural output. The extension service has the function of extending technical information, developed by research, to the farmer. Once the farmer has the knowledge of the potential of the inputs, he must have a source of

supply in order to utilize them. Experience has demonstrated that in developed countries the supply function can best be performed by the private sector. Private sector distribution is the key to the widespread use of improved agricultural inputs and has a definite influence on the effectiveness of both extension and research.

A close liaison must be maintained with the Private Sector Development Project (037) to avoid duplication of efforts and to magnify and enhance the results of both projects.

The Agricultural and Cottage Industries Bank, with the assistance of IFRD, and the agricultural credit program currently being developed in the Helmand-Arghandab Valley region (Project 090) will also play important roles within the general framework of this project. Credit is one of the key components of a successful program.

#### IV. PLANNED TARGETS, RESULTS, OUTPUTS

##### Target No. I

Encourage and promote the development of agri-business in the specific areas of seed, fertilizer and agricultural chemicals. This includes seed production, processing and storage, sale and distribution of all three inputs. Other major areas, such as marketing and credit, must also be taken into account.

The MAI must adopt and execute policies which will create a climate favorable to private enterprise. This will initially require an attitudinal change on the part of many personnel involved.

The task of shifting fertilizer from government operation to the private sector should be viewed in its historical perspective.

Fertilizer distribution in Afghanistan is somewhat unique in that it calls for the establishment of a national distribution pattern in a country with virtually no established national distribution channels.\* According to the MAI, the first significant use of fertilizer in Afghanistan began in 1960. It was imported from the USSR and used primarily on sugar beets, cotton and grapes. The lack of adequate research data at the time left the Afghan farmer to his own devices.

In the crop years 1963, 64 and 65, very little fertilizer of any kind was imported into Afghanistan. The MAI was distributing what fertilizer it then had on hand. As growers gained experience, demand increased, particularly for its use on cash crops, such as grapes. When the improved fertilizer-responsive Mexican varieties

\*Comments on fertilizer distribution in this PROP rely heavily on a special report by Charles R. Jenkins, "Proposed Fertilizer Marketing Organization for Afghanistan" January 1969.

of wheat were introduced, research results became available and agricultural extension information was disseminated, the demand for fertilizer rose. Importation of fertilizer was begun again this time not only from the USSR, but also from Pakistan and the U.S. Distribution, however, remained in the hands of the MAI.

The MAI recognizes the limitations of government distribution of fertilizer; hence, it has undertaken in the PL 480 agreements of 1967 to take steps to shift fertilizer responsibility to the private sector. The MAI cannot be expected at this time to turn over immediately to the private sector responsibility for importation, distribution and sale of all fertilizer. This program should be phased over the next two years because: (1) a transition period will be required by the government to determine the exact policy as to the future role of subsidies; (2) the use of fertilizer is relatively new and will require a period of time for the farmer to gain complete confidence in its broad use; (3) the MAI Extension Service will have to remain the prime source of information as to fertilizer use, at least until private dealers can be trained.

While projected fertilizer consumption is definitely related to the amount of the new Mexican wheat varieties that are being planted, it is also a function of the existing limitations in the MAI marketing structure such as administrative management and promotion capabilities. At present the MAI remains the sole importer-distributor of fertilizer and the principal sales agent. Government personnel have little experience in the skills required to operate a multimillion dollar supply organization.

On an experimental basis, the MAI has developed with the Nangarhar private sector retail sales, by bonded individuals, of seed and fertilizer. Adequate inputs, both physical and technical, were provided and the outcome was quite successful.

The Nangarhar plan revolved around the formation of farmer village committees. Village areas were combined into sections consisting of two or more villages. These sections become part of larger units called blocks. Thus, the entire Nangarhar region is cooperatively organized. The administrative organization for the marketing of fertilizer is composed of farmer representatives from village areas. These representatives are appointed by farmer committees.

There are three representatives from each section and they meet to form the administration of the block. The regional assemblage is composed of three representatives appointed from the block representatives. The primary function at this time of the appointed representative administration is to facilitate the distribution and sale of fertilizer and other agricultural inputs. To date, the committee's most pertinent business is that of selecting bondholders who serve as the retail outlets for agricultural inputs to neighboring producers. The MAI now plans to extend the successful aspects of the Nangarhar experiment to other regions. The Herat and Kabul regions have been instructed to develop a distribution and sales program based on the Nangarhar experience.

Since the MAI will be involved in fertilizer importation, distribution and sales on a gradually declining basis, it is planned that direct assistance to MAI will be phased out by FY 1973. The main thrust of U.S. advisory assistance, if called for after FY 1973, will be to the private sector. In the next two years the greatest responsibility of MAI will be in the area of fertilizer importations with distribution being turned over on a step-by-step basis to private entrepreneurs and retail sales being conducted through the distributor's selected retail outlets. The future demand for fertilizers by farmers of Afghanistan will increase at a rapid rate. Hence, it will require continuous upgrading of the MAI organization and a rapid expansion of the private sector to meet adequately the projected demand for fertilizers. While it is the primary plan to shift fertilizer importation, distribution and sales over to the private sector, it will nevertheless be extremely important to maintain an efficient organization within the MAI to fill the gap, should one occur, between the amount supplied by the private sector and the anticipated nationwide requirement. It is of utmost importance that assistance be provided to the MAI during this critical transition period.

#### Target No. II

Organize and put into operation an effective Government Seed Registration and Certification Service. For an effective operation, this would include (1) a policy committee; (2) legislation; (3) a foundation seed program, a seed laboratory, and a seed registration and certification service.

The introduction of the short-strawed fertilizer-responsive varieties of wheat to Afghanistan created a potential for self-sufficiency in wheat production for the nation. The purity of current improved varieties and the new varieties subsequently released by research must be maintained to support the present wheat program objectives.

Experience elsewhere has proved that this function can be performed best by a government-operated national seed regulatory agency. General plans have been drawn up, some personnel assigned and commodities procured for the first three steps listed above. The MAI will provide the additional inputs in terms of personnel, budget, buildings and equipment for meeting this target.

#### Target No. III

Private sector participation can best be enlisted through crop improvement associations or a similar organization to promote production of pure seed by interested farmers or agri-business minded individuals or groups.

As stated in Target No. II, experience has proved that the seed regulator function is best carried out by a government organization. Experience has also demonstrated the value of seed improvement associations made up of farmers, seed producers and private seed distributors. Commercial seed will be produced by private producers while foundation seed production will be a governmental function. The development, implementation and operation of the total seed program should be

an outgrowth of both the government regulatory organization and private seed-producer associations.

There are currently a number of farmers taking an active role in producing seed wheat. These individuals will form the nucleus for organizations as outlined in this target.

#### Target No. IV

Develop the technical and operating competence of a sufficient number of Afghans in farm machinery operation and maintenance in order to maximize the utilization of farm machinery for increasing agricultural production. This involves development of a training center which is fully equipped and staffed.

To maximize the full potential of improved inputs (seed, fertilizer), harvesting the increased production in a timely manner and processing the resultant output requires the introduction and utilization of modern machinery. As this machinery is imported, the necessary skills for the operation, maintenance and repair must be developed. To achieve this target a national training center has been established, oriented to agricultural production and processing machinery. It will require the training of instructors as the first step in the establishment of an institution to provide a cadre of mechanics skilled in the maintenance and repair of agricultural machinery. These trained technicians will be placed in both government and private operations throughout Afghanistan. The MAI must supply an initial group of 30 students with a second group of 50 students for the second class so as to keep the center operating at full capacity.

Farm equipment operators will be required to operate equipment in the field. These skills will be developed through the training of personnel on the regional experimental farms.

The third area in which training will be required is that of procuring, ordering, warehousing, and distributing spare parts for this machinery. Personnel will be trained, on the job, in Ministry warehouses to perform these tasks.

#### V. COURSE OF ACTION

##### A. U. S. Inputs

##### Personnel

A total of 26 man years of advisory and participating agency team services are estimated as the required technician services to this project during FY 1971, FY 1972 and FY 1973. These would be as follows:

	<u>Man Years</u>
Fertilizer distribution and marketing	3
Seed production and marketing	3
Agricultural engineer	3
Agricultural economist	3
Maintenance training	2
Participating agency team	12
Agricultural economist	
Grain storage specialist	
Grain transportation specialist	
Auditor	

### Participants

In FY 70 and FY 71 approximately 12 participants will be sent for training. In FY 72 and FY 73 three participants will be trained. Some participants will be sent on short-term observation tours of private sector agri-industries in other LDC's.

Participant training falls generally into the regulatory fields of seed, fertilizers and chemicals, as well as academically trained engineers. Short-term participants would be given observation tours of agricultural industries, and other development fields pertaining to agriculture.

### Commodities

Between FY 1971 and FY 1973, approximately \$1,000 for each technician per year will be required to supply the educational and demonstrational materials to support each technician. Transportation or replacement vehicles estimated at \$6,000 will also be required.

### B. RGA Inputs

#### Budgetary and Logistic Support

The RGA is required to provide the local currency budgetary support to enable the individual programs under this project to provide foreign exchange, as necessary, for offshore commodities which AID is unable to provide. In addition to the MAI ordinary budget which finances salaries, operation and maintenance and other recurring activities, a development budget for these new project activities will provide adequate funding for planned growth.

#### Counterparts and Participants

In order for development services activities to succeed, the MAI must provide a minimum of one qualified counterpart to work with each AID-provided technician.

The MAI must also provide a minimum of 12 qualified participants for out-of-country training for the period FY 1970-71. An additional 3 participants

will be required for FY 1972-73.

C. Other Donor Inputs

Donors other than the U.S. have been quite limited in the private sector. One area in which other donors are active is in farm credit. Definite steps have been taken to assist in establishing agricultural credit. With assistance from UNDP, an institute has been established and staffed for providing specialized training in agricultural credit. Several "integrated" credit pilot projects will be implemented as part of the institute's program in the Kodaman Valley and Baghlan area. The IBRD is providing funds and UNDP is providing technical assistance in reorganizing the Agriculture and Cottage Industries Bank of Afghanistan and in developing and testing improved lending procedures. The development and expansion of farm credit is a prerequisite to widespread use of agricultural inputs at this time.

The Asia Foundation has provided technical assistance in food processing. These efforts have concentrated primarily on raisins and other fruit processing.

D. Appropriateness of Scale

Since the scope of this project cannot be definitely defined due to the many changes in a developing agricultural economy, the present size of the AID program is at a near optimum level, considering the ability of the RGA to absorb various inputs. Additional assistance has been requested in terms of an economist. Although this assistance would not fall exclusively within the realm of this project it would provide considerable guidance. As the private sector development becomes more of a reality and with the expected increased ability of the RGA, the program will be gradually phased out by FY 1973.

E. Capability of Activity to Produce Results

A number of concrete results are currently in evidence with other major steps seen in the very near future. Although the content and strategy of this project have been as carefully evaluated as possible, in the final analysis its ultimate success will depend on the RGA and AID's efforts and the enthusiasm put into its implementation.

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NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

PROP DATE October 1969

Table 1  
COUNTRY Afghanistan

Original X

Rev. No.

Project No. 306-11-190-113

13

Project Title: National Agricultural Development  
Services

Fiscal Years	Ap	L/G	Total	Cont <sup>1/</sup>	Personnel Serv.			Participants		Commodities		Other Costs	
					AID	PASA	CONT	U.S.	CONT	Dir	CONT	Dir	CONT
								Agencies	U.S. Ag			U.S. Ag	
Prior through Act. FY 1969													
Oper. FY 70					New Project Starting FY 1971.								
Budg. FY 71	TC	G	365	-	117	172	21	45	-	6	-	4	-
B + 1 FY 72	TC	G	336	-	113	172	21	15	-	6	-	4	-
B + 2 FY 73	TC	G	253	-	90	142	-	16	-	6	-	4	-
All Subs.	TC	G	-	-	-	-	-	-	-	-	-	-	-
Total Life	TC	G	959	-	325	436	42	76	-	18	-	12	-

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## National Agriculture Development Services

Table 1 Exchg rate \$1 = Afs 75

Project No. 306-11-190-113

Fiscal Years	AID-controlled Local Currency		Other Cash Contribution Cooperating Country (\$000)	Other Honor Funds (\$000)	Food for Freedom Commodities		
	U.S. owned	Country- owned			Metric Tons (000)	CCC Value & Freight (\$000)	World Market Price (\$000)
Prior through Act. FY 1969							
Oper. FY 70			New Project Starting FY 1971.				
Budget FY 71	-	NA	240	-	-	-	-
B + 1 FY 72	-	NA	240	-	-	-	-
B + 2 FY 73	-	NA	240	-	-	-	-
All Subs.	-	NA	-	-	-	-	-
Total Life	-	NA	720	-	-	-	-

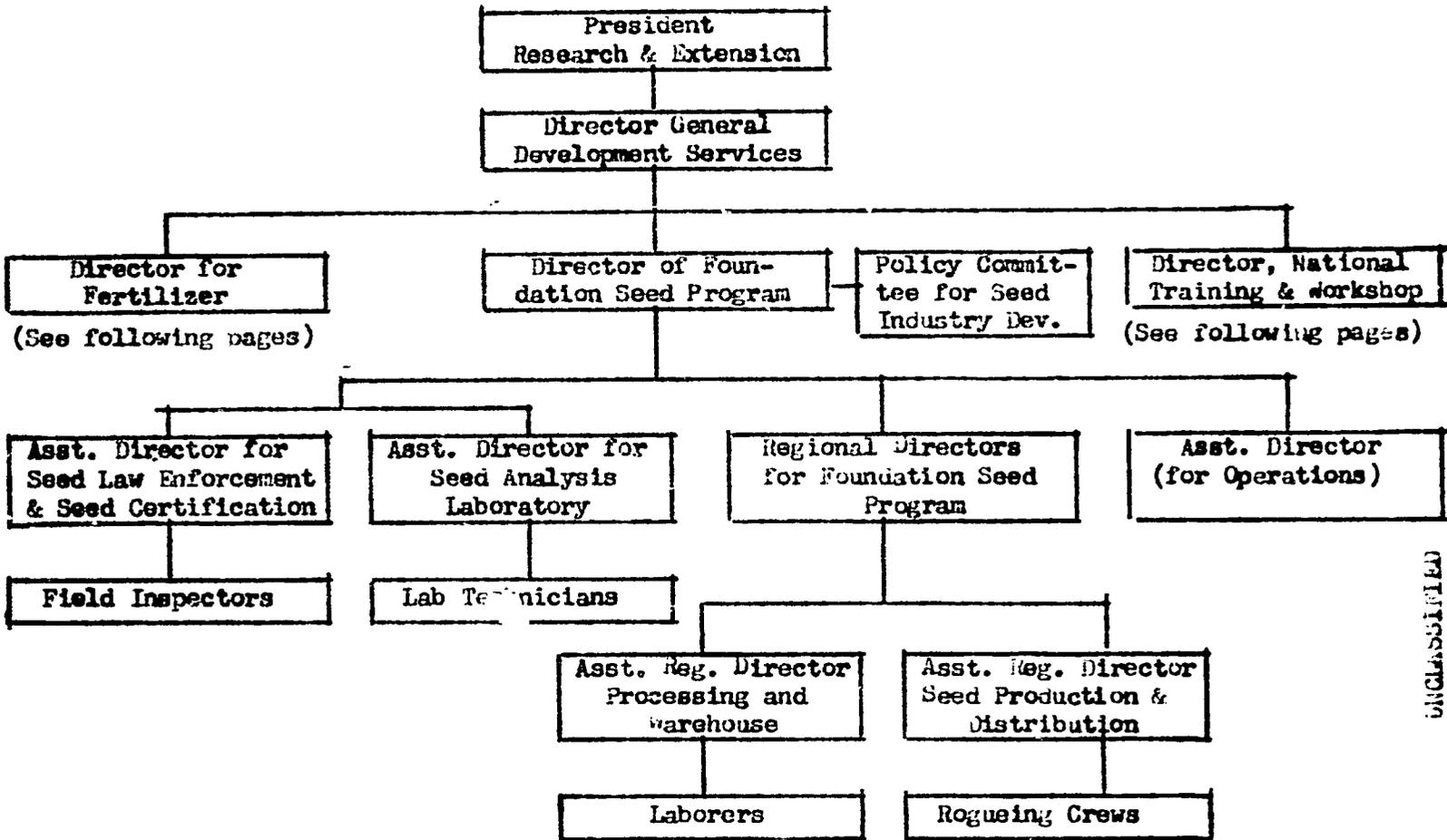
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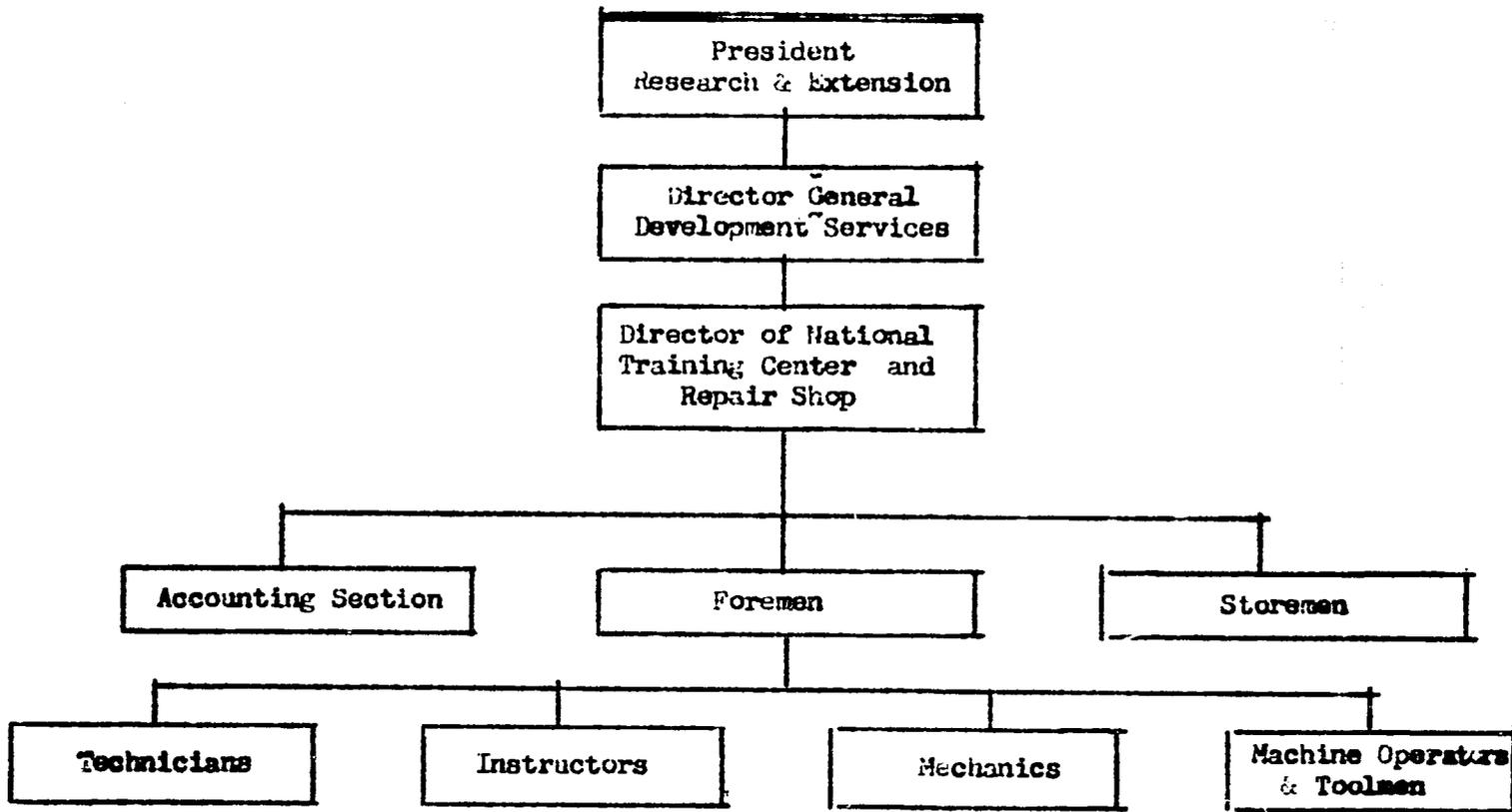
PROPOSED ORGANIZATION OF THE SEED SECTION OF THE RGA/MAI DEVELOPMENT SERVICES BRANCH



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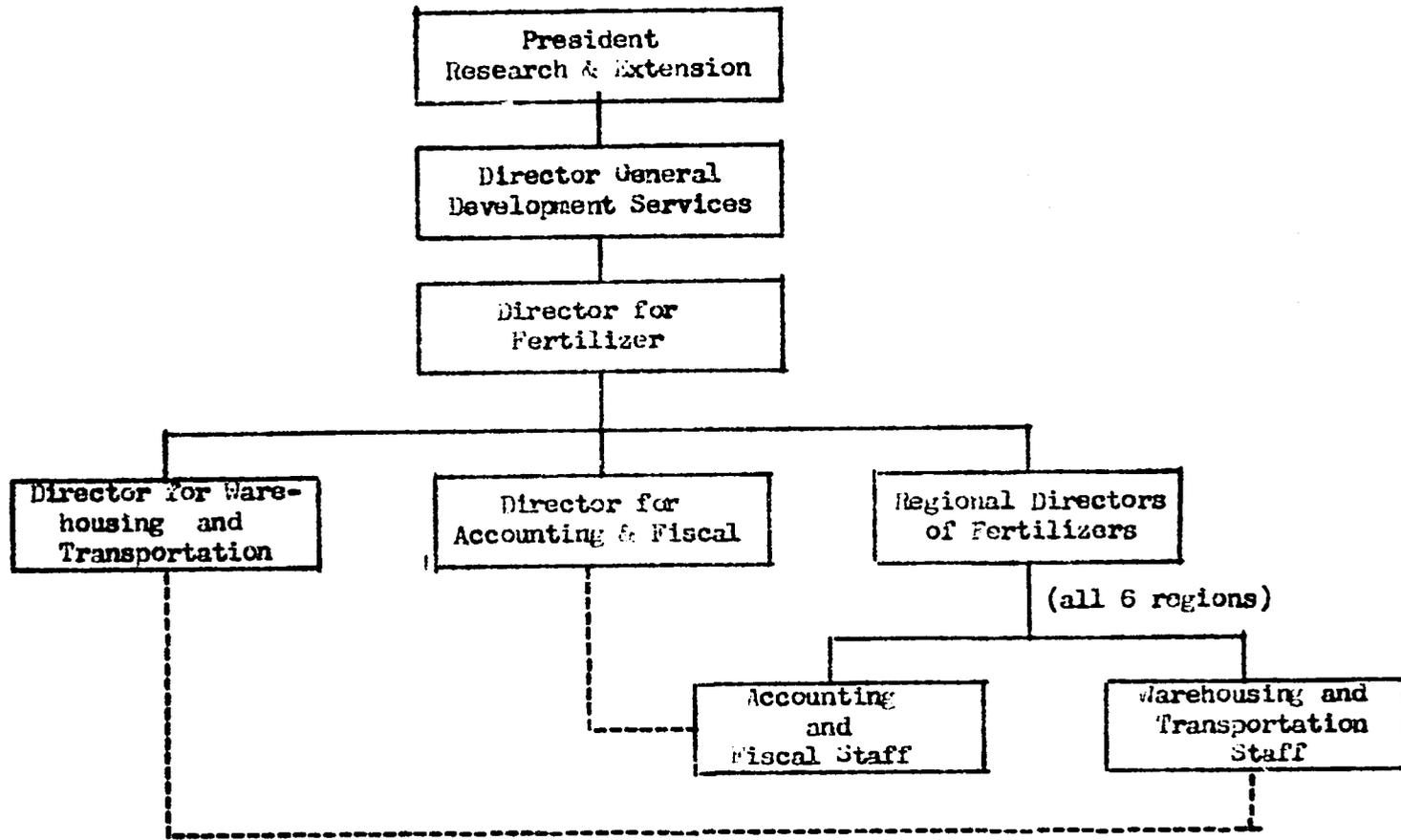
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PROPOSED ORGANIZATION OF THE NATIONAL TRAINING CENTER AND  
REPAIR SHOP OF RGA/MAI DEVELOPMENT SERVICES BRANCH



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PROPOSED ORGANIZATION OF THE FERTILIZER SECTION OF  
RGA/MAI DEVELOPMENT SERVICES BRANCH



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