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AGRICULTURAL SECTOR SUPPORT PROJECT
Activity Assistance Memorandum - Amendment No. 2
(306-0204)

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ACRONYMS

ACLU	-	Afghan Construction and Logistics Unit
ADS	-	Area Development Schemes
Afs	-	Afghanis (Afghanistan Currency)
ARS	-	Agricultural Rehabilitation Schemes
ASSP	-	Agricultural Sector Support Project
CBHA	-	Cross Border Humanitarian Assistance
CIF	-	Cost, Insurance, Freight
CIP	-	Commodity Import Program
DAP	-	Diamonium Phosphate (fertilizer)
ERMA	-	Emergency Refugee Migration Assistance
FAO	-	Food and Agriculture Organization
FOB	-	Free on Board
FX	-	Foreign Exchange
GOA	-	Government of Afghanistan
GOP	-	Government of Pakistan
Ha	-	Hectares
IBRD	-	International Bank for Reconstruction and Development (World Bank)
MAP	-	Monitoring, Analysis and Planning
MINAG	-	Ministry of Agriculture
MIS	-	Management Information System
MT	-	Metric Tons
NFC	-	National Fertilizer Corporation
NWFP	-	North West Frontier Province
PACD	-	Project Assistance Completion Date
PDPA	-	Peoples Democratic Party of Afghanistan

PSA	-	Private Sector Agribusiness
PVO	-	Private Voluntary Organization
RSAL	-	Remote Sensing Applications Laboratory (University of Nebraska at Omaha)
SAC	-	Swedish Afghanistan Committee
Shura	-	A Local or Regional Governing Body
TSP	-	Triple Super Phosphate (fertilizer)
UNHCR	-	United Nations High Commissioner for Refugees
UNO	-	University of Nebraska at Omaha
USG	-	United States Government
VITA	-	Volunteers in Technical Assistance
WFP	-	World Food Program

PART I. SUMMARY AND RECOMMENDATIONS

A. Background and Rationale

Prior to the December 1979 Soviet invasion, Afghanistan was one of the ten poorest nations in the world. Now, after nearly ten years of war, the country is even more desperately poor. At least one million people have died as a result of fighting, disease, and malnutrition. Between four and five million Afghans are now in refugee camps in both Pakistan and Iran and the numbers of internally displaced Afghans is estimated at 1.5 million.

Agriculture was and continues to be the dominant sector in the Afghan economy. Agricultural growth was achieved prior to the War despite a hostile landscape, a series of constraints (e.g., water scarcity) and a relatively small amount of arable land. In areas where agriculture was possible, over exploitation of small plots by poor farmers who could not afford natural or artificial fertilizers exacerbated natural soil deficiencies. This was especially true in the south and southeast, where staple grain production continually fell short of demand and imports from the surplus production areas in the southwest and north were required. The surplus areas (traditionally located around Helmand, Kunduz and Mazar-i-Sharif) benefited from plentiful rainfall and/or available and functioning irrigation systems. Increased production in these surplus areas led to the short-lived period of national grain self-sufficiency in the 1970s.

Ten years of intense internal conflict has had a devastating effect on the Afghan economy and on agriculture in particular. Destruction of field crops, indiscriminate aerial distribution of anti-personnel mines, government-led assaults and reprisals on villages believed to have supported the Mujahideen have led to the depopulation of large agricultural areas, especially in the southeast and east, damage to key transport and irrigation infrastructure and major declines in staple and export crop production.

The rationale for this amended Agricultural Sector Support Project (ASSP) is that the provision of assistance will help ensure that conditions inside Afghanistan are such that the existing and returning populations are able to sustain themselves in the near term. Agriculture and its related activities will continue to be the primary livelihood for the majority of Afghans for the foreseeable future. However, extensive damage to the rural agricultural infrastructure, unavailability of sufficient amounts and types of agricultural inputs at appropriate intervals, and damage to and lack of maintenance of roads and irrigation schemes have left this sector in poor condition to sustain the needs of several million returning Afghans. Therefore, the Project has identified a strategy that will facilitate the sustainability of war-affected Afghans (both refugees and internally displaced) through increased agricultural production.

The Project will follow a strategy of agricultural rehabilitation of selected areas. The Project will focus on the rehabilitation of agricultural infrastructure and restoration of agricultural production through the implementation of three components which are briefly described below.

B. Project Description

The Agricultural Sector Support Project (ASSP) is being amended to reflect a Project Assistance Completion Date (PACD) extension from March 31, 1990 to December 31, 1992. This extension is required in order to expand the breadth and depth of Project components. In addition, the life-of-project funding level will be increased from the current $6 million to $60 million. The expanded Project will be composed of three components:

1. Agricultural Rehabilitation Schemes (ARS) and infrastructure rehabilitation will serve individual farms and small groups of informally organized farmers with rehabilitation services, production inputs and marketing outlets for production which is in excess of family consumption needs. This component will also be dedicated to providing assistance in rehabilitation of small-scale community or group-owned, managed and jointly used agriculturally-related facilities. Irrigation schemes, especially lower level elements (minor canals, outlets, ditches, karezes), rural roads, bridges, and possibly community marketing facilities will be of primary interest to the Project.

2. A Private Sector Agribusiness component will primarily serve individual farms and small groups of informally organized farmers with production inputs, services and marketing outlets for produce in excess of family consumption needs. This component will be operated primarily through the existing private sector agribusiness sector in Afghanistan and Pakistan, drawing heavily on goods and supplies available on the market in Pakistan.

3. The Monitoring, Analysis and Planning component will serve as a market surveillance and analysis system essential in the monitoring of Project progress. A Management Information System will systematically assemble and analyze information from all sources focusing on the monitoring of prices of agricultural inputs.

Initially, the ARS component will be continued under the direction of Volunteers in Technical Assistance (VITA), the current contractor. VITA has successfully developed and managed the ARS component and will continue to implement it until their contract expires in early 1990. The management and technical support for the Private Sector Agribusiness and Monitoring, Analysis and Planning components will be provided by a new U.S. private sector contractor to be competitively selected. At the Mission's option, it may amend the new prime contract to add the work of the ARS component when VITA's contract expires.

C. Summary Budget*

ACTIVITY	OBLIGATION			
	FY89	FY90	FY91	TOTAL
Agricultural Rehabilitation Schemes	4,500	4,500	4,500	13,500
Private Sector Agribusiness	11,500	12,500	14,000	38,000
Contingency/Inflation	-	1,000	1,500	2,500
TOTAL	16,000	18,000	20,000	54,000

* This budget is additional to the $6 million provided in FY 87 and FY 88 under the original Project Authorization.

D. Issues

During the redesign effort, several questions/issues were identified. These are discussed below. All these issues raised are addressed in the Activity Approval Memorandum Amendment.

1. Issue: How does this Project justify the provision of resources to areas other than those associated with the majority of the returnees, namely the eastern border provinces?

Response: The Project purpose is to increase agricultural production as quickly as possible in an effort to sustain the returnees and internally displaced. The areas associated with the refugees have traditionally been food deficit areas -- they were usually supplied surplus grains from the north and northeastern provinces. This Project will continue to provide assistance in the form of agricultural rehabilitation schemes and agricultural input supplies to the border areas. However, a new focus will attempt to get agricultural production increased in the north where surpluses have traditionally been exported to deficit areas. (See Part II.1.)

2. Issue: Has Government of Pakistan approval been received for commodity exports under the Private Sector Agribusiness component and what mechanism will be employed to reimburse them for foreign exchange costs? What kind of financing arrangements are envisioned?

Response: The former government had provided assurances to the Mission that they would facilitate the export of agricultural inputs in the best interests of the Project. Such assurances have not yet been provided by the new Bhutto government. It is strongly felt, however, that the current Government will be as supportive of the Project concept as the last one. The Mission will soon begin negotiations with the GOP to reach agreement on the details of procedures and mechanisms. As part of these negotiations, the issues of level of payments, how they are calculated, what is comprised within a payment in the way of taxes, etc., and source/origin of inputs to which A.I.D. funds are attributed will be taken

into account. The Mission anticipates that agreements reached will be spelled out in a Memorandum of Understanding to be signed by the appropriate GOP Ministry. Similar arrangements will be reached with Pakistani agricultural input manufacturers.

3. Issue: What is the recurrent cost burden on this Project and how does the Project propose to reduce these costs?

Response: There are few, if any, recurring costs in the amended Project. The agricultural inputs component is by design a private sector activity that will make commodities available for resale. This component facilitates the increased availability of inputs -- once the commodities are delivered, the activity is completed without a recurrent cost. Similarly, the Agricultural Rehabilitation Schemes (ARS) are discrete activities which, upon completion, would have no new or additional recurrent costs. The Project does not focus on institution-building per se; nor does it initiate activities that need to be continually staffed by professionals.

If, on the other hand, a "new" Afghan Government decides that a Rural Works Department should be reestablished, the ARS personnel might form a nucleus for that institution. The majority of the costs associated with the ARS component are salaries. If the Mission were to reconsider the nature of the Project at some point, a recurrent cost question might arise and would have to be addressed at that time. (See VII.C.2)

4. Issue: How will this Project be integrated with the newly amended Health and Education Projects?

Response: Many clinics and schools are located in the areas where the amended ASSP will be working. Project contractors will be working together to identify new sites under the amended Projects where efforts can be undertaken jointly. To the extent other donors initiate similar activities, the Mission will take care that duplication of efforts is avoided and maximum coverage is provided throughout the country.

5. Issue: Will the Project be negatively affected if a "grubstake" program is not implemented by the United Nations or other donor(s)?

Response: To get the program off to an early and strong start, a supply of commodities and an effective level of purchasing power are needed. If the "grubstake" idea does not gain approval, a number of cash-for-work programs would be useful to help insure this. However, the grubstake will not overly effect the amended ASSP; the Project anticipates greater demand than can be met by this Project. If demand proves to be less than expected, Project resources will be shifted to fund more

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rehabilitation schemes. The same argument holds true if the Soviets or other donors contribute a substantial part of their proposed aid to agricultural inputs. Additional Project resources would be made available for rehabilitation purposes.

6. Issue: Does the amended Project minimize management responsibilities for the Mission Project Officer?

Response: Initially, the Project Officer will be responsible for ensuring maximum cooperation between VITA and the new prime contractor. The Mission has determined that it is not in the Project's interests to terminate VITA's contract early, thereby necessitating management of two contractors until the scheduled expiration of the VITA contract.

E. Recommendations

1. That the Agricultural Sector Support Project (ASSP) be amended to extend the Project Assistance Completion Date from March 31, 1990 to December 31, 1992 and to increase life of project costs from the current $6 million to a new total of $60 million to implement the amended Project as described in this document.

2. That the VITA contract be augmented without competition to permit an increased level of activity in accordance with this AAM Amendment through its estimated termination date of March 31, 1990.

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PART II. BACKGROUND AND RATIONALE

A. Setting

Prior to the December 1979 Soviet invasion, Afghanistan was one of the ten poorest nations in the world. Less than half the population above ten years of age could read and write. Now, after nearly ten years of war, the country is even more desperately poor. Afghanistan has one of the ten highest crude death and infant mortality rates in the world, and one of the ten lowest life expectancy rates (42 years). At least one million people have died as a result of fighting, disease, and malnutrition. Between four and five million Afghans are now in refugee camps in Pakistan and Iran and the numbers of internally displaced Afghans are estimated at 1.5 million. The 1979 population of 15.5 million was estimated to have fallen to 14.7 million in 1985 (including refugees)(1). Some farm areas are devoid of 30-90 percent of their pre-war population. Current (1986) estimates of Afghanistan's population range as low as eleven million.

B. The Traditional Role of Agriculture

Agriculture was and continues to be the dominant sector in the Afghan economy. Agricultural growth was achieved despite a hostile landscape and a relatively small amount of arable land. Only 7.6 million hectares, or twelve percent of the landmass, is suitable for cultivation. Much of the country is mountainous or dry desert. Of the arable land, 5.2 million hectares were previously irrigated and 1.4 million hectares were rainfed. Irrigation water was available from mountain snowmelt, rivers, wells, and spring-fed karezes (traditional underground irrigation canals). Of the irrigated land, only about half was annually cultivated due to the unreliability of the water supply. The other half remained fallow. As a result, only about four million hectares were cultivated annually. Of this land, about 1.4 million hectares were double-cropped.

Before the war, Afghanistan was approaching net food grain self-sufficiency. Despite the absence of accurate pre-war data, it is estimated that agriculture previously provided up to 65 percent of the country's Gross Domestic Product. Agriculture employed 85 percent of the labor force on one half of the country's arable land.

The size and nature of land holdings varied throughout the country, with the average area cropped per family at about 4.6 hectares. The majority of farms were owner-operated, with about one third of the rural population being landless laborers, sharecroppers or tenants. Agricultural cultivation was concentrated in the northern provinces of Baghlan, Kunduz, Takhar and Balkh, the upper and lower Kabul river valleys and the Helmand River valley. (See Exhibit One). Ninety percent of this cultivation was in cereals -- wheat being the staple food crop followed by barley, maize, and rice. The two major cash-crops were cotton and various fruit varieties. Average yields per hectare, as indicated in Table One below, were amongst the lowest in the world.

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(1) Area Handbook on Afghanistan, 1986, p. 86. Afghan population estimates vary and must be taken as rough estimates only.

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AFGHANISTAN

AREAS OF AGRICULTURAL CONCENTRATION
&
LOCATION OF AREA DEVELOPMENT SCHEMES

EXHIBIT 1

TABLE ONE. AVERAGE CROP AREA, PRODUCTION AND YIELDS, 1971-75

	AREA ('000 Ha)	AREA %	PRODUCTION ('000 Tons)	YIELD (Tons/Ha)
Wheat-rainfed	1,050	28	530	0.5
irrigated	1,250	23	2,230	1.8
Maize	480	13	705	1.5
Rice	210	6	410	2.0
Barley	355	9	355	1.0
Sub-total	3,345	89	4,180	
Cotton	70	2	105(1)	1.5(1)
Oilseeds	50	1	37	0.7
Sugarbeets	5	Neg.	58	11.6
Vegetables	90	2	680	7.6
Fruits	140	4	820	5.9
Other	100	3		
Total	3,800	100		

Source: IBRD, Afghanistan-Opportunities for Agricultural and Rural Development Sector Report. (Washington: The World Bank), 1978.

(1) Seed cotton

Nr: Crop rotations and intensity are unknown.

Prior to the Soviet invasion, low yields were attributed to a variety of constraints, including inhospitable climate, low annual precipitation, water scarcity, high evaporation in summer, and sharp daily temperature changes all of which combined to restrict production. In areas where agriculture was possible, over-exploitation of small plots by poor farmers who could not afford natural or artificial fertilizers exacerbated natural soil deficiencies. This was especially true in the south and southeast, where staple grain production continually fell short of demand and imports from the surplus production areas in the southwest and north were required. The surplus areas (traditionally located around Helmand, Kunduz and Mazar-i-Sharif) benefited from plentiful rainfall and/or available and functioning irrigation. Prior to the war, these regions led the country in the adoption of new high yielding wheat varieties and were the major growth areas in the demand for agro-chemicals and fertilizer. Moreover, increased production in these surplus areas led to the short-lived period of national grain self-sufficiency in the 1970s.

C. The Afghan Economy and the War

Although aggregate estimates of economic performance are limited and subject to political manipulation, there is general agreement that the Communist coup d'etat in 1978 and the subsequent Soviet invasion in late 1979 greatly retarded the already slow pace of economic growth in Afghanistan.

As a result of agricultural and industrial production declines and trade disruptions (owing to the conflict), per capita gross national product fell from an estimated Af 7,370 in 1978 to Af 6,862 in 1982. Aggravated by a twenty percent annual increase in the money supply (to pay military expenses) and drastic declines in the supply of consumables, especially bulk and processed agricultural products, prices rose sharply after 1979.

In the early 1980s, two separate economies emerged. The Kabul government, supported by the Soviet military, maintained control of the urban areas with their financial and limited industrial sector. These sectors have become increasingly dependent on the Soviet Union as continued fighting has cut their links to input supplies and consumer markets in Mujahideen-held areas. Only sectors deemed essential by Soviet advisors, such as natural gas and fertilizer production, have maintained their pre-war levels of production. Others such as cotton ginning, textile production and sugar processing, which depended on agricultural raw materials from areas outside Kabul's control, have declined. For example, one 1982 study by the Swedish Committee for Afghanistan suggests there had been major declines in cotton area and yield, eighty and seventy percent respectively, between 1978 and 1982(1).

Dislocations in the urban sector are mirrored by conditions in areas outside of central government and Soviet control. Destruction of field crops, indiscriminate aerial distribution of anti-personnel mines, government-led assaults and reprisals on villages believed to have supported the Mujahideen have led to the depopulation of large agricultural areas, especially in the southeast and east, damage to key transport and irrigation infrastructure and major declines in staple and export crop production. Most Afghan refugees were forced to abandon farms. Landsat imagery shows these fields became covered with weeds while irrigation systems deteriorated.

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(1) Gul, Aram. Swedish Committee Report.

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The 1988 Agricultural Survey of Afghanistan, conducted under the auspices of the Swedish Committee, found that agricultural production in Mujahideen-held areas had been reduced to one-third of pre-war levels(1). According to the Survey, the reasons underlying this decline were:

- the reduction in the supply of labor normally employed in agriculture and/or irrigation infrastructure repair and maintenance, due to flight, disability or death;
- a forty percent reduction in the numbers of draught animals due to disease, mines or deliberate slaughter by government forces;
- a decline in the genetic potential of wheat seed; and
- a decline in the use of fertilizer among most farmers.

In addition to the reduction in the draft animal population, there has been a general decline in livestock herds traditionally used by rural Afghans as another source of income to counter the impact of poor agricultural production. Numbers of common sheep, karakul sheep and goats have declined anywhere from thirty to seventy percent; trade in skins, a major foreign exchange earner before the war, has declined; and exports of traditional homemade carpets, largely made by women and dependent on karakul wool, have dropped off sharply since 1978.

Some attribute major disruptions in irrigation services to government efforts to exclude Mujahideen-held areas from services, such as in the Helmand/Arghandab irrigation schemes areas, while others point to dramatic reductions in maintenance caused by declines in the availability of rural labor.

With major segments of the labor force involved in the war or residing in Pakistan or the Gulf, and with most savings going into the war efforts, resources have been scarce. Operation and maintenance has seriously lagged. Small dams have not been rebuilt after spring runoff and canals have been allowed to silt in. In Kandahar, an area that previously produced seventy-five percent of Afghanistan's dried fruit, resistance sources have indicated that many of the orchards are dying for lack of water. This has been corroborated by Indian traders, who in 1983, observed a sharp decline in the supply of Afghan dried fruit and a doubling in prices.

In addition, transportation services, especially those that link surplus areas in the north with deficit areas in the south, have fared worse than irrigation services, and transport costs have soared. Primary and secondary roads have been extensively damaged, or have not been maintained, and travel on them is slow.

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(1) The study is based on a non-stratified sampling technique. For security reasons, the survey covered only areas which were under control of the Mujahideen at the time. While the accuracy of the actual data collected by the Swedish Committee is questioned by some, experts generally agree with the report's conclusions.

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One recent study, for example, mentioned that the cost of moving goods from the northern city of Mazar-i-Sharif over the Hindu Kush mountains to Kabul increased six-fold between 1980 and 1984(1). More recently, Afghan merchants, who continue to ship goods from Peshawar to Kabul, report transport costs ranging from Rs. 2,000 to Rs. 10,000 (U.S. $110 to $550) per eight ton truck depending on the extent of war-related disruptions and risks at any given time.

D. Historical Overview of the Project

The Cross-Border Humanitarian Assistance Program for Afghanistan (CBHA) was initiated in 1985 with $8 million in A.I.D. reprogrammed funds. As a result of strong Administration and Congressional support, the CBHA program expanded rapidly to its current FY 1989 total level of $70.5 million, consisting of $45 million in combined DA/ESF funds, $2.5 million in IDA funds (Department of Defense) and $23 million ERMA (Emergency Refugee Migration Assistance) funds(2). Initially, the program primarily consisted of cash-for-food and health grants to several European Private Voluntary Organizations. Beginning in late 1985, however, the Office of the A.I.D. Representative for Afghan Affairs (A.I.D./Rep) began, with the help of outside experts, the development of several activities to assist war-affected Afghans in the areas of health and education. A program to provide various humanitarian commodities under a commodity export activity was also developed. Implementation of these three programs began in the fall of 1986 along with continued assistance to PVO's.

In the spring of 1986, the Mission and Volunteers in Technical Assistance (VITA) began exploratory discussions on the agricultural situation in Resistance-controlled areas of Afghanistan. It was initially assumed that VITA could work under a grant agreement to provide limited agricultural sector support to an incipient Afghan Private and Voluntary Organization (PVO). By late summer of 1986, the Afghan PVO was not able to secure official recognition of the Government of Pakistan, a pre-condition for A.I.D. support. At the same time, the Seven Party Alliance recognized the importance of the agricultural sector by forming an Agriculture Council. The Council, which parallels those in other sectors, thus became a possible avenue for channeling A.I.D. resources in agriculture. In September, 1986, A.I.D. provided a one-year grant in the amount of $537,900 to VITA to design a project for assisting the agricultural sector of Afghanistan. The grant also authorized VITA to take steps leading toward eventual project implementation(3). Subsequently, A.I.D. authorized the Agricultural Sector Support Project (ASSP) on April 1, 1987 with a life of project cost of $6 million. VITA was contracted to implement the Project. The current Project Assistance Completion Date (PACD) is March 31, 1990.

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(1) Area Handbook on Afghanistan, 1986

(2) This does not include $29.25 million in PL480 funds nor an estimated $7.5 million in DOD transportation services. ERMA funds are a special earmark and will be made available only when the $45 million is fully obligated.

(3) The grant was funded under the PVO Co-Financing Project (306-0201).

As originally designed, the Project was to have essentially two components. One was to have been an institution-building element; an Afghan organization (the Afghan Agricultural Project or AAP) was to be created as the primary vehicle for implementing the Project. Policy guidance was to be provided by the Agricultural Council, a body already in existence, consisting of representatives from each of the seven political parties in the Alliance. The other component, running parallel to the AAP but working outside the direct guidance of the Council, was to channel resources (funds and farm equipment) through private sector groups and PVOs which had the ability to work in the agricultural sector in Afghanistan.

Unfortunately, neither the AAP nor the Council was able to function adequately and they have ceased to exist. To implement agricultural activities, including rehabilitation of irrigation systems and rural roads, the ASSP was restructured and amended in August, 1987 to introduce a rural works component. The definition of rural works included, on a trial basis, Area Development Schemes (ADS)(1). The idea was to include agricultural as well as rural works activities, whereby inputs like fertilizer, seed and oxen would be provided.

The trial ADS' proved to be a viable way to deliver goods and services for agricultural production and rehabilitation. Beginning in mid-1988, the ADS program was expanded. As of mid-November 1988, there were twelve ADS teams working in eight provinces(2).

E. Current Description and Accomplishments to Date

The ASSP currently consists of four components, one in planning and the three discussed above related to field activities: agriculture, commercial channels and PVOs, and rural works.

1. Planning. The planning component formulates implementation policy (within the general policy guidelines provided by A.I.D.) and plans the use of Project resources, monitoring and evaluating Project activities and the overall management of the Project. Planning has been very informal. Lack of hard information on the situation inside Afghanistan has been an obstacle to efficient planning, monitoring and definition of problems. An evaluation and monitoring system is in place, however, and project monitoring is built into individual Project activities.

2. Agriculture. Currently there are twelve schemes in eight provinces. Each team in an Area Development Scheme has four to six members who are trained as tractor and thresher operators or mechanics. Informal surveys within the Area Development Schemes have identified the types of inputs considered by farmers to be essential to rehabilitate agricultural production. Equipment and draft animals provided by the Project have demonstrated and introduced improved activities. The experience has helped Project managers and implementors to better define possible future activities. For example, certain types of threshers which

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(1) See page 24 for a thorough discussion of the ADS.

(2) The provinces are Kandahar, Paktika, Logar, Ghazni, Wardak, Tahkar, Parwan, and Baghlan.

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were introduced on a small-scale turned out to be inappropriate, while others worked quite well and demand for them is now being filled through the commercial channels sub-component. As of mid-November, 1988, they had helped to introduce, within ADS areas, tractors (15) with plows and tillers, bullocks (496), threshers (22), reapers (8), other equipment, and wheat seed.

3. Commercial Channels and PVOs. Working with private-sector Afghan businessmen, the Project has provided for sale and use throughout Afghanistan agricultural equipment such as threshers (308), pumps (1,561), rice husking machines (152), and spare parts ($226,600) with a total value of approximately $1.5 million.

Lack of information on the condition of fixed productive resources, and of the supply and appropriateness of alternative production inputs and services, has been a constraint on sound design and implementation of this and other agricultural activities. To alleviate this constraint, Project personnel have devised a two-staged approach. The first stage involves introduction and testing of alternative types of production goods and services to determine their suitability and acceptability under conditions prevailing in different areas. While losses of some types of production resources have been heavy -- e.g., livestock -- considerable though not precisely known amounts of other production goods and services are currently available in many but probably not all farming communities, supplied by private initiative and by the Kabul Government and Soviet efforts. This commercial, private-sector oriented activity has addressed shortages created by the war.

During the summer of 1987, VITA began working with two PVOs which were carrying out activities in Afghanistan: the Swedish Committee and British-sponsored Afghanaid. With the Swedish Committee, VITA jointly executed a field construction project. A collaborative development program was carried out with Afghanaid. Subsequently, VITA worked with two other PVOs--the Austrian Relief Committee and the Dutch Committee--and, to a lesser degree, the Norwegian Committee.

4. Rural Works. The Rural Works Division became operational in the summer of 1987 with a small nuclear staff. As of mid-November 1988, the staff had grown to nearly 200, with about three-fourths of them in Afghanistan. They are working in sixteen provinces of the country.

Up to now, rural works activities have been centered in areas freed from Soviet and Central Government control--generally within the eastern provinces which are the origin of the majority of the refugees in Pakistan. These areas are being dealt with first for two reasons: security and ease of access from Pakistan.

Rural works activities have been limited essentially to rehabilitating village roads and bridges, and small-scale irrigation systems, notably karezes. Project implementors felt that village access roads and

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provision of irrigation water were imperative to the rehabilitation of agricultural production. As of mid-November 1988, about 200 Km. of roads were under rehabilitation, while over 102 karezes have been rehabilitated(1).

F. Summary Results of Recent Project Evaluation

An assessment was undertaken as part of the larger exercise of Project redesign. The assessment (Annex A) found that during the one and a half year implementation period many achievements were made. The ASSP is the only significant cross-border program in agriculture and rural development. It has a strong Afghan character. Mechanisms and systems have been developed to rehabilitate small-scale irrigation systems and farm-to-market roads. A small but highly successful experimental activity has been developed to distribute agricultural equipment through the private sector. Reports coming out of Afghanistan indicate that the term "VITA" has become synonymous with agricultural rehabilitation. Travelers cite evidence of VITA's work throughout the eastern provinces and their services are greatly in demand.

The ASSP has been less successful in developing an organized agricultural rehabilitation program than it has in implementing rural works types of rehabilitation activities. To a large extent this is because about one year was lost, through no fault of the Project managers, in attempting without success to work through the Agricultural Council of the Seven Party Alliance. Only after deciding to do agricultural work through the field-structure of the Rural Works Division's Area Development Schemes was much accomplished in agriculture, except for the provision of equipment through the private sector.

G. The Problem: Sustainability of War-affected Afghans

Recently, A.I.D./Washington approved the Mission's Transition Strategy for the upcoming Afghan resettlement and rehabilitation period. The primary focus during this period will be the provision of assistance that will help ensure that conditions inside Afghanistan are such that the existing and returning populations are able to sustain themselves. Food security and agricultural rehabilitation are considered paramount to this effort since they are directly related to immediate resettlement needs.

Agriculture and its related activities will continue to be the primary livelihood for the majority of Afghans for the foreseeable future. However, extensive damage to the rural agricultural infrastructure, the unavailability of sufficient amounts and types of agricultural inputs at

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(1) To date, VITA field staff have surveyed more than 1,000 karezes. As of December 1988, based on information reaching Peshawar, 480 more karezes are being rehabilitated.

appropriate intervals, and damage to and lack of maintenance of roads and irrigation schemes have left this sector in poor condition to sustain the needs of perhaps several million returning Afghans. The problem facing this Project is how to facilitate the sustainability of war-affected Afghans (both refugees and internally displaced) through agricultural production.

H. Response: Rehabilitation of Selected Areas

The permanent resettlement of Afghans will in large part depend on the political situation that evolves following the Soviet withdrawal. Assistance to help reconstruct agricultural infrastructure and restore agricultural production will be one of the keys to a successful (permanent) resettlement of both returnees and internally displaced. Rehabilitation of the agricultural sector on a limited basis and in selected areas will be critical to avoid a return to refugee status for those who elect to return to Afghanistan.

Rehabilitation activities should focus attention on identifying and solving key constraints which inhibit agricultural growth in surplus agricultural production areas in the north, northeast and southwest. These areas have traditionally supplied provinces in the south and east, the home of a majority of the returnees, with basic staples during periods of insufficient supply and rising commodity prices.

Rehabilitation efforts in these areas need to focus on resolving four major constraints to increased production, not all of which can be addressed by the A.I.D. program:

(1) Limited supplies of basic agricultural inputs. Through the existing private sector wholesale trade system, efforts should be undertaken to assure that basic supplies of agricultural inputs, including improved seed, fertilizer, farm equipment and the knowledge to use them, are available to farmers in major production areas.

(2) Reduction of seasonal labor shortages which reduce the area under cultivation. Importation of simple, previously in use, labor saving agricultural machinery by private traders should be encouraged.(1) Prior to the current hostilities, surplus production areas in the north and southwest were already experiencing agricultural labor shortages during periods of peak demand. Human and animal casualties during the war will exacerbate these trends and lead to more acute shortages when full scale production resumes.

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(1) The Mission has weighed the costs/benefits of introducing labor saving agricultural machinery over the use of manpower for employment purposes. A conclusion was reached that in order to get agricultural production increased over the shortest period of time -- which is the Project purpose -- the short-term use of machinery is best to supplement the drastically reduced animal power supply. Once production yields are up and returnees are settled, the continued introduction of such machinery will need to be reviewed. Employment will be generated through, inter alia, rehabilitation schemes.

(3) Disruptions in services caused by major damage to key production infrastructure. Major damage sustained to irrigation and transport systems needs to be identified, the impact of the damage on local agricultural production determined and preliminary plans detailing what is required to effect repairs developed. In many areas these activities may only require short-term intensive efforts to get systems fully operational. In areas where major repairs are required, development of preliminary plans would provide the basic descriptive information needed to design and implement larger (food-and cash-for-work) activities for other donor funding. Such efforts, if appropriately designed, would be labor intensive, and provide employment and income as well as set the stage for longer-term employment in agriculture.

(4) Resumption of selected export industries. Any rehabilitation program should explore ways of increasing high value-added exports, especially carpets and fruit.

I. Project Strategy

A. Keys to General Rehabilitation

As articulated in the Mission's Transition Strategy, any general rehabilitation for Afghanistan must focus on the resumption of agricultural production. The promotion of agricultural activities will set the stage for the resumption of long-term agriculturally-based economic growth. An agricultural rehabilitation strategy for Afghanistan will need to address the following major areas:

a. Agriculture Revitalization. To get agriculture moving, the focus must include solving problems in key, highly productive, agricultural regions. (These areas do not necessarily coincide with areas where a majority of the refugees will return i.e., the eastern provinces.)

Thus, the focus must be on the major production areas. Efforts must restore irrigation services, intensify production on irrigated acreage by increasing supplies of chemical fertilizers and new improved wheat seeds, and provide labor saving machinery. In addition, in order to assure that adequate supplies of required inputs in major production areas are available and the movement of agricultural surplus to deficit food areas is possible, repairs to the transportation infrastructure will need to be effected. Getting wheat production back to pre-war levels will be essential, since it is the largest generator of national value-added and income, and will be the largest single contributor to the nutritional well-being of returning refugees.

The logic to this argument is that the majority of returning Afghan refugees will presumably go back to native areas that traditionally have been food deficit areas, which now have sustained substantial war damage. Even without the problems of mine clearing and war-related damage to agricultural infrastructure, massive agricultural assistance most likely will not turn these areas -- primarily those along the Pakistani border -- into regions capable of feeding their populations. While some production increases in these areas are possible, regions supporting a majority of the returning refugees will remain food-deficit. (See Exhibit 2).

PROVINCES REPRESENTING MAJORITY OF REFUGEES IN PAKISTAN

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b. Strengthen Private Sector Market Distribution System. Following the cessation of hostilities, massive internal and external relocation will most likely occur. Afghans will require assistance to rebuild their homes, start up agricultural production and maintain their families at least until the first harvest. Strengthening existing private market distribution systems to get the goods and services returnees require to re-establish themselves will be essential to avoid major shortages, skyrocketing prices and migration of returnees back to Pakistan.

c. Flexibility. Until a stable central government reasserts itself in Afghanistan, rehabilitation efforts must remain flexible, rely almost exclusively on regional or local institutions for implementation, focus on identifying and solving problems rather than rebuilding institutions, and target implementation over a wide range of tribal and factional areas.

The above national -- or "big picture" -- agricultural strategy suggests a number of specific donor-funded program goals, not necessarily all supported by the United States Government:

(1) The provision of adequate financial and/or physical resources to returnees so they can sustain themselves and their families during their return trip to Afghanistan, and during at least the first nine months of residence while they await their first harvest (1);

(2) The timely supply of basic agricultural inputs -- high yielding seed, fertilizers and tillage equipment -- to Afghan farmers in key production areas, in the amounts required, and at prices they can afford; and

(3) The repair of existing irrigation and transportation infrastructure to facilitate the expansion and/or intensification of cultivation, to assure the delivery of required farm inputs, and to provide for the movement of agricultural surpluses to deficit areas.

The resumption of staple crop production in marginal areas as well as in other major surplus production areas will be essential. This will assure that national supplies of cereals and vegetable oils are sufficient to stabilize medium-term food prices in the deficit-prone rural areas where the majority of refugees will resume residence.

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(1) The question arises where these funds will come from. The United Nations (UNHCR and WFP) has agreed that the idea of a "grubstake" is a good one and merits serious consideration. (See Part V.B. and Annex E for a discussion of planned UN actions.) The amended ASSP is not premised on the provision of either cash or commodity assistance to returnees. The provision of a grubstake would enhance the ASSP, however. Failure to do so would mean that liquidity and, therefore, demand for agricultural inputs, would be less than it would be with a grubstake program. The ASSP would still be viable; agricultural rehabilitation would take place somewhat more slowly.

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Returnees will require financial resources to purchase agricultural inputs needed to resume agricultural production. (See footnote 1 on previous page.) Families will also need funds to purchase food to sustain themselves prior to the first harvest, and building materials to repair or rebuild homes damaged in the war. These requirements suggest a number of specific steps. First, returnees will require food rations to sustain themselves and their families during the return journey to Afghanistan; (it will vary from a few days for many, to a considerable time for some). Second, returnee households will need money to purchase building materials to repair homes as well as farm inputs to begin staple crop production. (It is currently estimated that families will need to cultivate up to one hectare of land, which at current yields, should produce enough wheat to sustain the family for one year.) Third, returnees will require additional money to procure food and clothing to sustain them over a six-month period prior to their first harvest. And fourth, repair of essential infrastructure, including irrigation and rural road systems need to be undertaken to support the resumption of trade in agricultural inputs and food.

2. AID's Role in the Agricultural Rehabilitation Strategy

The Mission's strategy involves a focus on areas of perceived comparative advantage vis-a-vis other multilateral and bilateral donors. The enormity of the task involved and the limited financial and human resources available to A.I.D. suggest discrete yet focused involvement in the overall strategy discussed above, along with close coordination with other donors.

The Mission's experience with its cross border activities, and recommendations made in the recent assessment report suggest that A.I.D.'s comparative advantage in Afghanistan remains in limited agricultural rehabilitation and private sector agribusiness activities. In the area of agricultural rehabilitation, the program will focus on supporting activities in a discrete number of productive, relatively stable agricultural areas, in addition to providing support to areas where refugees will be returning.

The ASSP will focus on the identification, prioritization and solution of small to medium rural public works and agriculture-related problems (Component 1). Agricultural Rehabilitation Schemes (ARS) will be used as testing grounds to focus on developing practical solutions to local production problems, especially those which have developed as a result of the war(1). Project elements involved in these efforts will act as conduits for the distribution of agricultural inputs not normally sold, such as wheat seed; will serve as sources of information on how local markets are functioning, i.e., identify potential shortages and dislocations; and will serve as a link between local farmers and market retailers to provide new inputs or machinery required to solve area problems. The latter role is extremely important in the case of power machinery and implements, where a number of farmers will have to join together to purchase the items, and local dealers will have to forward

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(1) ARS are discussed more fully in Part III.B.1.

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single downpayments to Pakistani colleagues to initiate importation. Fields which have been fallow during the war have become overgrown with weeds and brush. Effectively removing them will be a major problem for small farmers. For tillage purposes, oxen will be more practical than tractors in some areas.

Expansion of the current Afghan/Pakistan trade network will be encouraged to provide the wide range of such items as food, building materials and agricultural inputs which returnees will need to re-establish themselves (Component 2). The variety and quantity of consumables required will be immense. If an attempt were made to supply these through a non-market distribution system, it would require an effort of staggering proportions. Improving the existing private wholesale marketing structure, which has linked Pakistan with Afghan merchants throughout the War, provides the only viable, cost effective method of moving the volumes of commodities required(1). A.I.D.'s past experience with this type of system has proven that it works. Also, traders have indicated that they would be agreeable to expanding their facilities, using their own capital, to meet future Afghan needs.

A market surveillance and analysis system will be essential to monitor prices in Afghan markets, and to provide a basis on which to set possible subsidy levels, or to determine whether subsidies are needed (Component 3)(2). Also, such a system will be useful in identifying rapid price rises which will help to identify shortages in regional markets. Such situations need to be avoided and contingency plans established to expand rapidly non-market distribution systems (see Part III.B.2).

The Mission's agricultural strategy entails some potential problems and pitfalls. For example, the strategy relies heavily on the cooperation of the Pakistan Government (GOP) to permit local purchase of Pakistani inputs and export to Afghanistan. Informal discussions held with the previous Government at the ministerial level suggest significant flexibility in dealing with problems in this area. They were willing to consider special procedures for the issuance of export permits, the payment of grants to refugees and/or the provision of the foreign exchange costs of Afghan pound exports to facilitate repatriation. The GOP remains committed to seeing that the Afghans return to their homes as soon as possible. However, the design team did not meet with the new Bhutto government. The Mission is beginning discussions to see if preliminary agreements reached with the former government will be honored. Given the GOP's desire to see the refugees return in "honor and safety," it is thought that the Bhutto Government will evidence the same positive attitude as the previous one. (see page 31 for more discussion). Also, the strategy relies heavily on the performance of the Afghan/Pakistan

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(1) Refer to Annex C, for a fuller discussion of trading networks.

(2) The "commercial channels" component of ASSP has subsidized the shipment of all machinery at essentially the same rate, i.e., around twenty-two percent. It now seems likely that some inputs will require very little, if any, subsidy. Other items may require a larger subsidy to compete effectively with subsidized East Bloc inputs, in an effort to strengthen trade links between Afghanistan and Pakistan.

market. Large commodity support programs not directly administered by A.I.D., but managed by the private market are new to the portfolio and do pose some risk. Maintenance of a non-market distribution system, as a fallback position, will provide a minimum amount of insurance required to deal with administrative and other unforeseen market disruptions and delays. (see Part III.B.2)

The ASSP does not include long-term institutional development as an activity to be supported or even encouraged. Rather, the ASSP emphasizes the use of existing systems, i.e., the present wholesale distribution system, and focuses on limited, short-term problems oriented toward small-scale rural works (larger projects requiring longer periods of implementation would be handled by other multi- or bilateral donors).

Part III. AMENDED PROJECT DESCRIPTION

A. Project Goal and Purposes

The goal of the Agricultural Sector Support Project (ASSP) is to help facilitate the resettlement of war-affected Afghans into Afghanistan over the near-term. The purposes of the ASSP are threefold: (i) to help restore agricultural productivity through small-scale agricultural infrastructure rehabilitation (primarily small-scale irrigation systems and roads), (ii) help assure the provision of essential production inputs and other crucial commodities, and (iii) to broaden the economic base of Afghanistan by building trade links and commercial ties with Pakistan and other open-market countries.(1)

B. Project Components

The amended ASSP has three main components which build on the experience of the Project to date: (i) Agricultural Rehabilitation Schemes; (ii) Private Sector Agribusiness; and (iii) Project Monitoring, Analysis and Planning. (See Exhibit 3). The components of the revised and expanded ASSP are designed primarily to serve individual farms and small groups of informally organized farmers with rehabilitation services, production inputs and marketing outlets for production which is in excess of family consumption needs. This is to be done in the absence of a formalized and established central government and corresponding agencies, departments or ministries. Local cohesiveness is often limited to village or adjacent villages and predicated on similar political and/or ethnic composition, the direction of shuras or local councils(2). The Agricultural Rehabilitation Schemes (ARS) approach under the revised Project was developed on the premise that the above situation will exist for some time. A critical task will be to bring idle or underutilized cropland back into cultivation. This will be accomplished through the first two Project components.

1. Agricultural Rehabilitation Schemes

The Agricultural Rehabilitation Schemes (ARS) component will be implemented in a structure similar to that of the existing Area

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(1) The original AAM did not specify a particular goal. The original purpose was two-fold to: provide resources to support agricultural productivity in selected areas of Afghanistan, and support the growth of institutional mechanisms to use the resources provided under the Project. The purposes of the amended AAM now reflect greater emphasis on rehabilitation of the agricultural sector through the provision, inter alia, of discrete resources.

(2) See Annex D for a discussion of the role of shuras.

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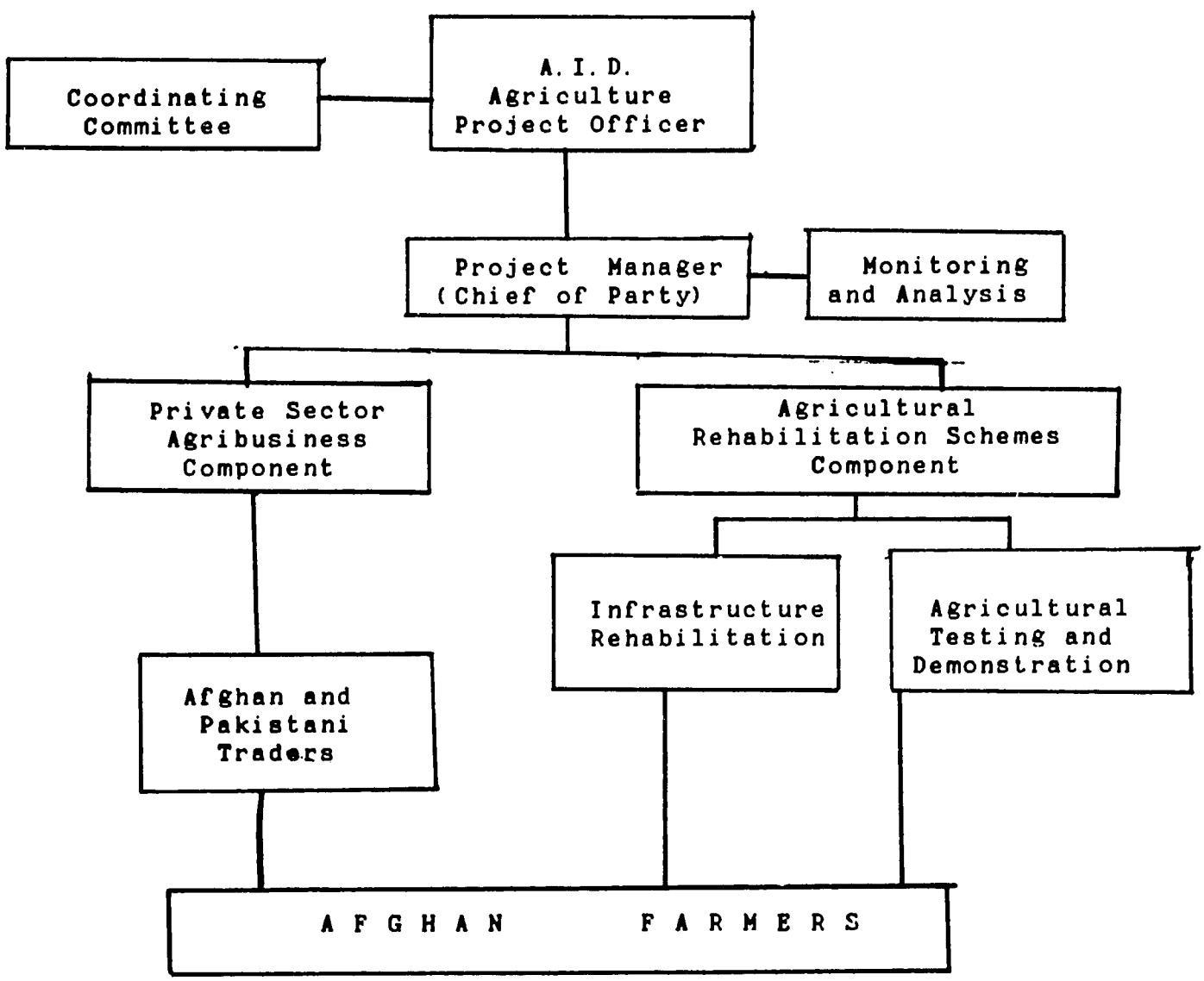
EXHIBIT 3

Management Structure



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Development Schemes(1). The change in name is intended to portray more accurately the purpose and the functions of this component, namely rehabilitation of both agriculture and infrastructure. The number of schemes will be increased gradually, as opportunities arise, from the existing twelve to a minimum of fifteen over the next three years.(2) The main objective of the schemes is to help solve a selected set of problems that have arisen due to the War, including:

- damage to community-owned, small-scale irrigation systems;
- damage to rural roads and bridges;
- loss of draft power due to approximately half of the pre-War numbers of oxen having been killed;
- growth of grass, weeds and shrubs on land that has been left untilled for several years, making it very difficult to till with traditional tools and methods; and
- deterioration of seed varieties and planting materials.

While the above five problem areas will be the focus of ARS activities, enough flexibility is built into this component so that, in special cases, other activities can be carried out. If the field staff, in consultation with shuras, identify a significant problem or an opportunity on which they would like to focus Project resources, they will report it to Project headquarters with a request for approval to proceed.

This component consists of two inter-related activities, infrastructure rehabilitation, and agricultural testing and demonstration.

a. Infrastructure Rehabilitation: Activities will focus essentially on two kinds of infrastructure which have been damaged during the war: community-owned, small-scale irrigation schemes, and rural roads and bridges. This focus is not intended to preclude the

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(1) Area Development Schemes (ADS) were introduced by the Project contractor (VITA) to provide an administrative structure to permit the provision of agricultural assistance in an orderly way. This structure is an alternative to the Agricultural Council which did not prove viable. The ADS serves as a channel through which to provide agricultural commodities and services. Because VITA engineers and senior technicians were located in an area for a substantial length of time to survey and supervise the reconstruction of karezes, etc., it was decided that these personnel could provide a nucleus around which other activities, including agricultural components, could be structured. A plan was then made to set up area development offices with an area development officer in charge and, depending on the level of assistance, with agricultural and engineering staff working under him.

(2) The idea is to focus in selected areas and expand activities within an area as if in a growing circle. However, pending funding availability and other factors, the number of schemes to be supported could grow substantially, possibly with joint financing with other donors.

rehabilitation of other types of community-shared infrastructure which is important to agriculture. Rather, experience to date suggests that these two areas are where the critical needs lie and, therefore, only in exceptional cases will other kinds of infrastructure be rehabilitated by the AGSP. Moreover, these efforts do not require extensive outside assistance. For example, most of the irrigation systems can be restored by merely clearing weeds and debris, while others will require repairs or rehabilitation.

Basic analyses will be carried out to determine the kinds of activities that will have the highest economic returns. In general, it is expected that this will mean shifting somewhat from a concentration on karezes to small-scale surface irrigation systems. However, priorities as to specific activities will be decided in close collaboration with the shuras.

Once an activity has been decided upon, the Project will provide guidance and direction on technically and economically feasible methods for rehabilitation. In addition to clearing and rehabilitating irrigation systems and land, this will include feasible arrangements for tillage and improved planting methods.

b. Agricultural Testing and Demonstrations: Activities will focus on finding and demonstrating ways to solve problems that Afghan farmers now experience due to events of the past decade. For example, to help solve the draft power problem, Project activities will include demonstrations of the use of tractors, to complement the remaining oxen, in areas in which farmers are not yet familiar with tractor cultivation(1). Community-nominated tractor drivers will be trained in the operation and maintenance of tractors and other related equipment.

To solve the problem of tilling land that has been idle for several years, different tillage tools will be tested, both tractor-drawn and oxen-drawn. Tools which best solve the problem will then be demonstrated in the area, and processes will be set in motion (through the Private Sector Agribusiness Component of the Project described below) to make the equipment available through private sector traders and merchants.

Other donor agencies are working on the seed problem, especially genetically improved wheat seed, which has degenerated since it was introduced in the 1970s. Among the agencies are FAO and the Swedish Afghanistan Committee. Traditionally, wheat seed has not been sold in the marketing system. Rather, farmers trade wheat seed among themselves. Thus, it may not be possible to get large quantities into the hands of Afghan farmers through the private sector. In the Agricultural Rehabilitation Schemes, it is

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(1) Tractors will be reintroduced into these areas (traditionally north of Hindu Kush) where they have been previously used and where there is a demand.

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planned that, with the help of shuras, key farmers will be identified who will be willing to produce (multiply) seed for the community. Foundation seed plus fertilizer will be provided to those key farmers who agree to: follow recommended cultivation practices, and share the resulting output with neighboring farmers by trading the seed produced for their local wheat. Ideally, the cooperating farmers will have fields large enough so that a portion of the field will be planted using traditional methods and varieties in order to demonstrate a comparison between the cultivation techniques and varieties. It is anticipated that mechanical seed drills will be used in the "improved" plots; analysis of the results of the use of moderately-priced, locally-manufactured seed drills in Pakistan shows a very high rate of return to the use of drills from savings in the amount of seed, efficiency in fertilizer placement and higher yields compared with broadcast seeding.

There exists an enormous need for training of Afghans in all aspects of agriculture and the related sciences. During Project design, it was debated whether or not selected numbers of Afghans should be given scholarships for training under the ASSP, or whether training should be strictly limited to meet the requirements of the Project; i.e., short term and in-service training. Ultimately, the latter course was chosen in order to focus resources on quickly increasing agricultural productivity. However, a small amount has been budgeted to permit funding of a few U.S. or third country training opportunities should this be needed.[1] If the time frame of the Project is extended beyond 1992, and pending availability of funds, longer-term academic, field-oriented training would be highly useful and should be funded.

c. Area Selection Criteria[2]: Planning for new and continuing locations for Agricultural Rehabilitation Schemes (formerly Area Development Schemes) must be flexible enough to take advantage of the changing political and economic situation in Afghanistan. It is important that the new sites be located so as to have substantial impact on national productivity as well as for the local economy. Selection criteria for locating teams to implement the new Agricultural Rehabilitation Schemes (ARS) will include:

(1) Productivity of the Area: The most agriculturally productive areas should receive priority so that both infrastructure rehabilitation, and agricultural testing and demonstration will help those regions to produce surplus agricultural commodities for deficit areas[3];

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(1) Approximately 2/3 of the training will be in-service with the remaining 1/3 set aside for U.S. or third country training. "Longer term" training will be limited to students who had their university studies interrupted as a result of the war in Afghanistan - approximately 20 students have been identified.

(2) See Annex E for a more extended discussion.

(3) Most areas north of the Hindu Kush have continued substantial production despite the War, and damage, though widespread, has not been as severe as in the South.

(2) Community Political Organizations: Project design calls for close collaboration with shuras or other local community organizations for effective planning and implementation; only those areas in which such organizations exist, or are likely to become functional, will be suitable locations for ARS teams;

(3) National Balance: Agricultural Rehabilitation Schemes should seek to include representative areas in the territories of the main ethnic groups of Afghanistan; and

(4) Poppy Areas: ARS teams will not be located in areas in which it is known that poppies are grown, unless:

- the local community government (shuras and/or commanders) actively seeks assistance in reducing poppy production; and

- a reasonably viable economic alternative (e.g., saffron) is available.

As stated earlier, (see Project Strategy), it is likely that most of the new areas will be in the north and northeast regions of Afghanistan since most of the current ADS's are in the south and southeast.

2. Private Sector Agribusiness (PSA) [1]

The distribution of agricultural inputs has suffered as a result of Kabul government policies and the internal conflict. Many farmers have been unable to obtain inputs because of overall shortages and due to the Kabul regime's steering some inputs away from Mujahideen-held areas. Private marketing systems have been disrupted due to fighting. The distribution of seeds, fertilizer and agricultural implements is currently handled through state affiliated organizations. These organizations are often inefficient and do not operate effectively in the seventy to eighty percent of the country now controlled by the Mujahideen. As a result, most farmers cannot benefit from officially sanctioned systems. By channeling goods through the private sector, another means of agricultural input distribution will be fostered. Agricultural productivity would increase and the private sector will thereby be strengthened.

The Soviet Union and Eastern Bloc countries have heavily subsidized their exports to Afghanistan to expand commercial ties and gain from the resulting political influence. These ties are promoted to a degree by Afghanistan's natural gas reserves in the north-central provinces that are piped across the nearby Soviet border, with meters only on the Soviet side. The importation of commodities from western nations, principally along the Afghan-Pakistan border, will

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(1) Please refer to Annexes H and I for a more detailed description of the operational mechanism of this component. These Annexes attempt to provide some answers to the questions posed on page 32 of this document.

strengthen the region's commercial ties with Pakistan and the West. It is intended that many of the commodities shipped to Afghanistan under this program will be manufactured or procured in Pakistan.(1) This will have the added benefit of supporting development in both Afghanistan and Pakistan with further integration of the two economies. Soviet and Eastern Bloc commercial relations probably will not disappear, but their significance and, therefore, their influence in Afghanistan hopefully would diminish. Afghanistan is drawn closer to Pakistan and the West through the restoration of trade lines fostered by this private sector program.(2)

This ongoing component will reflect an expanded use of existing private sector trading networks and concentrate on input supply.(3) The component will be reoriented and expanded based on:

- the success of the relatively small experimental program under the current ASSP of cross-border sales of selected items of farm equipment;

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(1) Fertilizer procured in Pakistan but with source/origin in Eastern Bloc countries will be excluded.

(2) One of the uncertainties about the overall future supply of agricultural inputs in Afghanistan is the extent to which Soviet and other aid, as pledged at the U.N. conference in October, 1988, and subsequently will be designated to assist with agricultural rehabilitation. What would be the implications, for instance, for the Private Sector Agribusiness component of ASSP if the Soviets were to earmark a substantial portion of their aid for fertilizer, farm machinery and other inputs? The Mission's conclusion is that even if that situation were to occur, there would still be need for the additional value of inputs and commodities being proposed for ASSP, because the total needs for farm production increases are so large. If the Soviets do provide large supplies of farm inputs, it is even more important that the Private Sector Agribusiness component strive to build trade links and commercial ties between Pakistan and Afghanistan by supplying inputs. If it should turn out that the need for additional inputs under ASSP is less than projected, then that would free up additional resources for rural infrastructure rehabilitation. The Mission believes the more likely event will be that supplies of inputs, such as fertilizer and tractors, from the Soviet Bloc will decline from recent levels. However, there is considerable uncertainty, which reinforces the need for flexibility in this Project.

(3) Please see Annex F for an analysis of VITA's experience to date with its commercial track.

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- the belief that the private-sector marketing system in Afghanistan will effectively distribute needed inputs in response to farmer demands;

- the belief that sufficient liquidity exists among at least a significant proportion of Afghan farmers; that an effective demand exists for certain inputs, depending for some items on the level of subsidies and the resulting prices; and that providing returnees with a "grubstake" along the lines being considered by UNHCR and WFP could be an important and complementary means of providing enough liquidity for their resettlement and rehabilitation. (See Part V.B. and Annex B);

- the willingness and, indeed, enthusiasm of Pakistani agribusiness representatives to build trading links with Afghan traders and merchants; and

- the strong belief that the Pakistan Government will facilitate cross-border trade for essentially all required agricultural inputs.

Unless adequate supplies of agricultural inputs and basic food commodities are available at the village level, acute shortages could occur, local prices would skyrocket, further repatriation of returnees might decline, and there might even be a reflow of returnees back to Pakistan. To address this problem, the Project will identify basic commodities that will be in short supply in Afghanistan, locate potential suppliers in Pakistan, and reactivate or strengthen private sector trading networks on both sides of the border to assure that the required goods and services flow to local Afghan markets. The Project will make maximum use of existing Afghan wholesale markets, which have generally operated efficiently during the war. (see Annex C). This approach will minimize the need for expensive (donor sponsored) distribution systems which could be highly inefficient under the unstable conditions likely to prevail in post-war Afghanistan.(1)

Major advantages of a private sector, market-oriented approach are:

- the system will respond quickly to market signals from supplies readily available and positioned strategically in Pakistan near the Afghan border. This is particularly important because of the uncertainty regarding the exact input requirements (e.g., the posture of the Eastern Bloc in continuing the supply of the phosphatic fertilizer, and whether the Soviet-managed urea factory at Mazar-i-Sharif will continue to operate at full capacity).

- the system is not management intensive and will require a minimum of expatriates to facilitate the processes.

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(1) Obviously there remain unknowns about transportation and roads. One potential bottleneck may be roads that are closed off by the Resistance or Kabul regime for military purposes.

The goods to be financed and supplied under the Project will, with rare exceptions, be purchased from Pakistan markets. Neither A.I.D. direct hire nor ASSP contract project staff should be involved directly in purchase, storage and import of goods or services to be distributed in Afghanistan. The system for buying, transporting and distributing goods will function essentially as follows:

1. Commitments will be negotiated by the Mission and the contractor with the new Government of Pakistan (GOP) for free purchase in Pakistan from public and private sector distributors of the type of supplies and equipment available in Pakistan identified as useful for agriculture production in Afghanistan.

2. As necessary, special arrangements will be made with the GOP and private sector for wholesale purchases in volume and export of these commodities (see below). Most will require no special arrangement. However, in the case of some for which Pakistan is import-dependent, special but simple purchase and import licensing and accounting would be required, e.g., fertilizer.

3. For some commodities, limited subsidies might be necessary. Subsidies would be provided by the Project to facilitate purchase in Pakistan at prevailing market prices, and transport to Afghanistan and sale there at local market prices whatever they may be. Of course, the existence of depressed prices for particular goods -- prices which make commercial sale unprofitable -- could be interpreted as a signal that supply of this item might not be a problem at the particular time. Decisions would be taken accordingly whether to subsidize or simply concentrate on other goods. Subsidies, when provided, could be in the form of a partial payment of the local product costs, financing of part of the freight costs to Afghanistan, or a rebate to Pakistani manufacturers or distributors.[1]

4. Traders with orders in hand or with identified potential sales in Afghanistan would approach local goods vendors (e.g., fertilizer suppliers) and buy goods on the local market at the prevailing wholesale prices, paying either in cash or in some cases on a negotiated deferred payment basis. If private sector liquidity becomes a major problem on costly items such as fertilizer and tractors, where large supplies might be involved, the Project in collaboration with traders would negotiate a 60-90 day deferred payment agreement financed by the Project to permit traders to buy, transport and market the additional quantities of these goods in Afghanistan.

5. For goods for which Pakistan is partially or wholly dependent on imports and would have to replace stocks purchased for export to Afghanistan under the Project (e.g., fertilizer and pesticides), the ASSP would, in effect, pay in dollars for the full replacement costs on the world market. In practice, the U.S. might convert this quantity of dollars in the Bank of Pakistan, thereby providing the dollars and obtaining rupees to be used to

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(1) Please refer to Annex I for a fuller discussion on the possible need for subsidies.

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finance subsidies and other Project costs. Alternatively, A.I.D. could go into the market, buy the goods for dollars and resell to the traders and exporters to Afghanistan, but that introduces an unnecessary burden on A.I.D. or the contractor. A.I.D. also could import the goods from foreign sources, but the variety and small quantities involved would make this too costly and burdensome for the Project, and the risks and cost of major errors in estimating types and quantities of goods would be large.

6. For many commodities, there would be only a small foreign exchange component. For others, such as fertilizer, the foreign exchange component would be essentially 100 percent. The amount of dollars to be provided would be negotiated by the Mission for each type of commodity. In all of the cases, traders would be required to maintain a record of Project-related goods purchased and exported which would be the basis for U.S. currency conversion at the Bank of Pakistan.

7. Local currency derived from dollar conversions in Pakistan to offset foreign exchange costs to Pakistan of goods exported would be 100 percent available to cover Project costs, including subsidy costs and operating costs in Afghanistan. For the latter, Pakistani rupees would be converted to Afghanistan afghanis at the parallel rate of exchange at least as long as the current political situation exists in Afghanistan.

8. A small part of the total dollars would be reserved to finance direct dollar costs of goods and services procured from abroad. This would be mainly technical assistance from sources other than Pakistan or Afghanistan, and small amounts of imported equipment and supplies for field trials and for direct Project use (e.g., vehicles).

9. Transport services would similarly be purchased on the local market with payment in rupees or in afghanis converted at the parallel market exchange rate between -- now about 1 to 10. For most of the goods being purchased and marketed by the private sector, the private agribusiness firms would arrange transport contracts with private truckers. Private truck owner/operators now seem to provide most of the transport services. In some areas, transport brokers help arrange transport for merchants and backhauls for truckers.

The reconsign team met with selected GOP officials to discuss the concept of the Private Sector Agribusiness component; without exception, those people were very supportive in principle. However, that was before the new government took office, and some of these people are no longer in office. Therefore, both the Mission and the new contractor will need to follow-up; the feasibility of the concepts underlying the supply of inputs through the private sector will need to be re-tested and the procedural details will need to be worked out.

Following are agenda items which will need to be discussed and for which arrangements and agreement will have to negotiated: (1)

1. Issues related to foreign exchange reimbursement to Pakistan for items delivered to Afghanistan:

   - What will be the mechanism for the Project to reimburse Pakistan for the foreign exchange costs?
   - Should the Project cover the total cost of the goods in foreign exchange, only the foreign exchange component of the goods, or something in between?
   - Should the "cost of goods" be CIF Karachi or CIF at the border points near Afghanistan?

2. Issues related to the formalities (or lack of such) for getting the goods across the border:

   - What kinds of export permits for which types of goods will be required?
   - Who will have the authority to issue the permits?
   - At what locations will the permits be issued?
   - What kind of accounting mechanisms will be needed to keep track of the quantities of goods crossing the border?

Placing complete reliance on the private sector may not be advisable, however. Political instability, the limited size of the wholesale distribution system, the extent and timing of repatriation, and the ability of the system to expand to meet Afghan market needs suggest the advisability of maintaining the option of a non-market or CIP-like, distribution system to handle items which may not respond to market forces, or commodities not normally traded in the open market (high yielding seed varieties), and to cope with potential major market disruptions (crop failure/civil war). The "fall back position" to complement the Private Sector Agribusiness component would be one that could be responsive to both private and public sector needs in the area of agricultural and rural development. To do this, the list of commodities available under the program would be broadened and the prime contract would be written to permit the procurement of commodities through or by the Mission, on an exceptional basis. A pattern and precedent has been set by the successfully amended Pakistan Agricultural Commodity Import Program (CIP).

3. Monitoring, Analysis and Planning (MAP)

Effective management of the Project will require a continuing flow of information from both line units (ARS and PSA) and to the Monitoring,

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(1) Please refer to Annexes H and I for more details.

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Analysis and Planning unit. The information will be fed into the computerized data-based Management Information System (MIS) for access by unit staff for conducting analyses needed by the various levels of Project management: the Coordinating Committee; the Mission Project Officer the Project Manager, or Chief of Party; the manager of the ARS component; and the manager of the FSA component.

The MIS will systematically assemble information from all sources including routine ASSP reporting and monitoring and evaluation activities of the two other components and the major elements of these components, e.g. from different rural works, ARS teams and community units, the agricultural development officer, agriculture and agribusiness activity reports, etc.

The Agricultural Rehabilitation Schemes will be the primary suppliers of data including: market statistics such as farm input/output price data; local food/commodity price data and local farm and non-farm wage data; lists of public works and agricultural experiments to be undertaken during the upcoming year; and periodic progress reports on implementation of the public works and agricultural components.

The MAP will serve as a staff unit to the Chief of Party. The unit will collect and analyze data on selected prices and wages in Afghanistan; compare those data with a comparable series for markets in Baluchistan and the NWFP; analyze progress on the rehabilitation component of the Project; conduct special studies to examine problems and solutions in agricultural input marketing; conduct studies of specific Afghan commodity markets, primarily the major grains (especially wheat, which is the wage good); examine marketing margins, marketing efficiency, and the flow of the commodities; undertake analyses to determine additional commodities or inputs which may be needed in Afghanistan; and maintain computerized financial and process monitoring systems. (1)

The Coordinating Committee will need data and analyses as a basis for discussions with relevant GOA ministries to achieve and to maintain assurances that any potential bottlenecks to cross-border movement of inputs and commodities will be removed. The required analyses will include periodic reports on, for example, volume and prices of goods moving into Afghanistan and on payments made to the GOA to cover the foreign exchange costs; and on problems encountered, if any, in acquiring export permits or in moving goods across the border.

The A.I.D. Project Officer will be responsible for overall supervision of Project implementation, including contractor performance, Project financial flows, adjustments in Project activity which reflect changing circumstances for approval of Project training and field implementation plans, and for liaison with the Coordinating Committee. To carry out these responsibilities, the Project Officer will require up-to-date information on: the financial status of individual Project components (i.e., commitment levels, expenditures, amounts in the pipeline); flows

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(1) It is anticipated that three long-term technical assistance positions (probably expatriate) will be required for the MAP Unit.

of commodities stimulated by the Project; status of prices and wages in Project areas; and annual implementation plans and periodic progress reports for each of the Project components. The Project Manager, or Chief of Party, will be responsible for assuring that the required, periodic status reports and analyses are provided to the A.I.D. Project Officer on schedule).

The Agricultural Rehabilitation Schemes Manager will be the person responsible for cross-border field operations assuring that the relevant data are collected on a timely and systematic basis and provided to the MIS staff for processing.

The Private Sector Agribusiness Manager will be the person responsible for facilitating the movement of inputs and commodities across the border, and for monitoring progress. This manager will assure that relevant information is reported to the MIS unit on volumes, sources, wholesale prices, transportation costs, and Afghan market prices as reported by truckers and traders.

C. Summary Outputs and Inputs

1. Outputs: At the end of the Project, it is expected that the following will have taken place:

- A high proportion of the productive agricultural areas of Afghanistan targeted for support will have been brought to the levels of productivity which existed prior to 1979, and many of the areas will be at higher levels of productivity by virtue of:

  --fertilizer, new wheat varieties, and other inputs having been made more widely available to farmers through commercial channels.

  --small-scale irrigation systems having been rehabilitated;

  --rural roads having been rehabilitated;(1)

  --draft power constraints having been overcome, with an increase in the number of bullocks and tractors;

  --tillage methods having been identified and used to cope with the problems associated with land left untilled during the 1980s;

  --grain seed drills, other appropriate machinery and improved cultural techniques having been introduced and being more widely used; and

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(1) This Project will not rehabilitate roads in isolation. The A.I.D. supported Afghan Construction and Logistics Unit (ACLU) will be undertaking rehabilitation/repair at the same time.

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- Commercial trade between Pakistan and Afghanistan, by virtue of linkages having been reestablished and strengthened between agribusinesses and traders in the two countries, will be expanded and will have a high probability of being self-sustaining. This will depend on continuing close political relations between the two countries, and the ability of Afghanistan to reimburse the foreign exchange cost to Pakistan of items delivered from Pakistan and sold in Afghanistan.

2. Inputs: A.I.D. will provide an additional $54 million to the ASSP for a new life of project total of $60 million. Inputs to the amended Project will consist of approximately $9.9 million in technical assistance costs, $3.3 million for infrastructure rehabilitation, $31.7 million worth of commodities (nearly exclusively agricultural inputs and equipment), $1 million for short-term training, $4.6 million for operations and logistics and $3.3 million for inflation.

There will be no direct counterpart contribution. However, while difficult to calculate, the Afghans will provide substantial in-kind contributions in the forms of labor and construction materials. In addition, it is known that the GOP will continue to provide limited amounts of other assistance (e.g., shelter, food) to Afghan or other third country national personnel working inside Afghanistan. There is no attempt to estimate the value of these in-kind contributions.

3. Summary Budget: The following is a summary of the estimated amended life of project cost for the ASSP. A more detailed budget is provided in Part VI.

C. Summary Budget*

ACTIVITY	OBLIGATION			
	FY89	FY90	FY91	TOTAL
Agricultural Rehabilitation Schemes	4,500	4,500	4,500	13,500
Private Sector Agribusiness	11,500	12,500	14,000	38,000
Contingency/Inflation	-	1,000	1,500	2,500
TOTAL	16,000	18,000	20,000	54,000

* This budget reflects the additional budget requirement. The total life of Project budget including the $6 million already obligated will be $60 million.

Part IV. PROJECT MANAGEMENT AND IMPLEMENTATION

A. Project Management Structure

Exhibit 3 (page 23) shows the intended Project management structure. Initially, the three components described above will be coordinated under the direction and guidance of the Mission's Agriculture Development Officer. Two components, Private Sector Agribusiness (PSA) and, Monitoring Analysis and Planning (MAP) will be the subject of a new U.S. contract to be competitively bid. At this time, the Agricultural Rehabilitation Schemes component will be continued under the contract with VITA, which has successfully developed and managed the ongoing component for the past two years.

The management and technical support for the PSA and MAP components (prime contract) will be provided by a new U.S. private sector contractor. A qualified team would be one with knowledge of the Project, substantial experience in Afghanistan, and experience working with the agribusiness sector in Pakistan where most of the agribusiness goods and support necessarily will originate. At the Mission's option, the prime contract may be amended to add the work of the ARS component when the current contract for ARS effort expires on March 31, 1990. The scope of work for those efforts will be included in the Request for Proposals. If the Mission elects this option, the prime contractor would then serve as the overall Project manager at the conclusion of the VITA contract on March 31, 1990, thereby reducing the management burden on the Mission.

The Mission discussed and rejected the possibility of terminating VITA's contract early in order to have one contractor. Given VITA's valuable work to date, the contacts they have established and the success of their efforts, the Mission believes early termination would be detrimental to the Project. Implementation over the next year will determine whether the management model using two autonomous contractors discussed below, is workable. If not, the option will be exercised.

The components of the ASSP will be closely coordinated in order to achieve maximum results at minimum costs. To insure that such coordination and active cooperation take place, several mechanisms will be employed. The Agriculture Development Officer will provide general direction to the Chiefs of Party of the two contracts, who will have direct implementation responsibility. He will be responsible for general monitoring and evaluation of the performance of both contractors.

To further strengthen coordination and cooperation, an ASSP implementation steering committee will be established including participation of the Chiefs of Party of each of the contract groups and the Agriculture Development Officer or his designee. This committee will meet regularly -- no less than twice a month -- to review progress, identify problems and recommend actions including evaluations and redesign of lagging elements. They will particularly focus on elements that affect both components, and areas where coordination and mutual support is required.

The personnel of the MAP component will serve a staff function. The head of this unit will report directly to the Chief of Party for the prime contract. For the remainder of VITA's current contract (which expires March 31, 1990), the Chief of Party of that contract (which has responsibility for implementing the ARS) will report administratively to the Agriculture Project Officer, but it is expected that the two Chiefs of Party will work closely together to accomplish the Project's purposes.

Currently, Afghans play a significant role in Project management and implementation. Two of VITA's senior field staff are highly qualified Afghan technicians. Similarly, it is expected that the prime contractor would seek to place qualified Afghans in as many positions as possible.

B. Roles of Implementing Entities

1. Volunteers in Technical Assistance (VITA)

VITA has done a commendable job, with the assistance of two former senior Afghan government officials, in establishing a structure with which to carry out rehabilitation activities inside Afghanistan. The existing staffing for VITA's cross-border teams is appropriate for the rural works (or infrastructure rehabilitation activities). However, some changes will be made in team staffing for carrying out the agricultural testing and demonstration activities. VITA will oversee all Project rehabilitation activities in Afghanistan. Its Agricultural Rehabilitation Schemes Management Unit, located in Peshawar, will consist of three technical backstopping sections - training, agriculture and civil works. The unit will manage all field activities in Afghan sites. Field units, operating under the sanctions of the local area commanders or councils (Shuras) will perform three functions: monitoring local area agricultural markets, repairing irrigation and transportation infrastructure, and conducting agronomic trials designed to solve constraints to improving agricultural performance. If solutions require outside equipment or inputs, the Scheme would, if required, assist in organizing effective farm demand to assure the inputs are available through the private market system.

The recently completed assessment of the ASSP (VITA contract) clearly indicates VITA lacks the technical and administrative capacities to support this sub-project of the ASSP.(1) This factor is even more critical as the Project activities in technical areas of agriculture, engineering and irrigation are required to support field activities.

While VITA's role vis-a-vis the Mission will not change, they will be instructed to cooperate and coordinate fully with the prime contractor. VITA will likely continue to be responsible for agricultural rehabilitation activities until their contract expires in March, 1990.

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(1) This statement refers the need to increase the number of technical staff on hand in the field in order to implement more effectively a portion of the activities as well as a need to improve home office backstopping capabilities. The capacity of the VITA field technical staff is not questioned..

2. New Prime Contractor

A new contractor with an in-house capability and experience in developing countries in agribusiness management, marketing and commodity procurement will be sought. This entity will be responsible for the research and study of the topics listed below, and with the Mission's guidance, for directing the allocation of Project resources.

- o the agricultural inputs needs of the target areas which primarily include large sections of eastern and northern Afghanistan per the Project strategy;
- o the availability in Pakistan and elsewhere of required commodities to meet those needs; and,
- o the best and most feasible administrative, legal and financial means to achieve the required input sales from or through Pakistan and into Afghanistan.

It is anticipated that the prime contractor will be based in Peshawar and will be directed by one expatriate private sector operations expert. This individual will have skills in a broad range of commercial areas including marketing, logistics and finance. The team will also include staff with economics, business, agribusiness commodities, logistics, management, financial management, accounting, and other skills. This unit will operate through the existing system of Afghan/Pakistani traders and truckers in Peshawar and Quetta and Afghan wholesalers and retailers inside Afghanistan.

The prime contractor will also be responsible for the oversight and implementation of the MAP component. This component will be organizationally separate from the Private Sector Agribusiness (PSA) component. Under the MAP component, the contractor will be responsible for the tracking of, and performance of analysis and planning for all aspects of the ASSP implementation activities including both sub-projects. In addition, the contractor will be responsible for tracking those aspects of Afghanistan's agriculture which have a direct relationship to ASSP in the sense that information and analysis of them is essential to implementation.

The contractor will be encouraged to field a team with as many qualified Afghans as possible.

3. University of Nebraska (UNO)

VITA will continue its subcontract with the University of Nebraska's Remote Sensing Applications Laboratory (RSAL), but at a minimal level of effort. UNO will be requested to undertake a mapping exercise of several ARS to determine the extent of damage done.

Use of remote sensing imagery acquired over Afghanistan will assist implementation of all components of the ASSP. For example, preliminary

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reports (November 1988) to VITA on agricultural change detection in the Ghazni and Helmand areas by UNO's RSAL have shown that certain areas appear to be prosperous in spite of the war, and other areas have greater or lesser problems. Some areas under strong government control may be relatively unaffected; areas to the periphery appear to have suffered extensive damage to irrigation or to transport and delivery systems.

C. Role of the Private Sector: Afghan and Pakistani

1. Procurement and Sales

Pakistani agribusinesses, dealers and manufacturers of agricultural inputs will have responsibility for placing the various inputs in showrooms and waresheds at strategic places near the border with Afghanistan or, in some cases, for delivering the goods directly to the border from their regular places of business. Afghan traders, dealers, merchants, and farmers will buy their requirements (with rupees which they will have procured with afghanis at the bazaars in Afghanistan or Pakistan) from the showrooms and waresheds or, in some cases, directly from the Pakistani manufacturers and agribusinesses.(1)

2. Transportation

Analyses carried out by the design team indicate that sufficient trucks are available, both Pakistani and Afghan to handle the extra tonnage of materials to be moved under the ASSP. In rough terms, there is an average of about 100 eight-ton trucks per day crossing into Afghanistan from Pakistan, mostly privately owned, with various kinds of commodities. It is estimated that a range of from ten to twenty trucks per day will be required, on average, to move the quantities of inputs anticipated under ASSP. If a truck constraint appears, it is anticipated that the Project will be able to call on other existing and planned fleets: namely the ACKU which is expected to have a minimum of 300 trucks in its fleet (see footnote 1 below).

D. Evaluation

As amended, the Project will have a built-in evaluation unit -- the Monitoring, Analysis and Planning component. In addition to the day-to-day monitoring that will take place, two formal evaluations will be undertaken. The first evaluation will be scheduled approximately twelve months after the amendment has been authorized. Its purposes will

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(1) If the private sector Afghan and Pakistan wholesalers, retailers and transporters are going to be asked to change their current, profitable trading relationships, they will need additional "incentives" or inducements to cover these greater operating margins. Past experience based on the VITA commercial channels activity, indicates the additional costs are in the 20 to 25 percent range. Initially, the program should be prepared to cover these costs. As new trade patterns develop into profitable relationships, competition should reduce the initially high operating margins.

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be to assess the progress to date in rehabilitating various rural works schemes; and to assess the viability of the private sector market distribution network as the means of providing agricultural inputs necessary for increased production. The evaluation will outline whether the system is functioning to the extent necessary for the Project to be successful, i.e., adequacy in providing needed agricultural inputs. The evaluation will recommend whether the Mission should adopt another supply mechanism, e.g., the traditional Commodity Import Program (CIP) approach.

The second evaluation will be scheduled by the Mission when judged necessary. Given the changing political scenario within Afghanistan, the amended ASSP has adopted a short-term rehabilitation strategy. Within the next several years, it is conceivable that this Project may need to undergo another assessment/redesign.

E. Accountability (1)

With its monitoring system, Project accountability has been achieved as much as possible, given the limits imposed by travel and security. It is anticipated that this important issue will be better addressed in the future as the situation changes, more Afghans return home, Project activities expand, and more expatriates are able to work within Afghanistan. In addition, the Mission's own PSC financial analyst, a retired A.I.D. auditor, periodically reviews VITA's financial and physical accountability systems and will do the same for the new prime contractor. The Mission's Evaluation Officer and PSC Monitoring Specialist review project monitoring systems on a regular basis, and are developing an overall program information management system.

Audits by non-federal auditors will be conducted as found necessary, in addition to the periodic audit of the Regional Inspector General for Audit. The Mission has not identified a specific requirement at this time. As with evaluations, these outside audits will be financed if necessary, by the Technical Services and Support project (306-0200). This arrangement is in conformance with Payment Verification Policies.

F. Implementation Plan

The following is a preliminary implementation plan.

Activity	Timing
Continue Rehabilitation work	Ongoing throughout LOP
Review & Approval of ASSP Amendment by A.I.D./W	January/ February, 19
Initiate negotiations with GOP	January, 1989
Release of RFP for Components 2 and 3	February, 1989
Amendment to VITA contract	February, 1989

(1) Please refer to Annex I for more discussion on accountability.

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Selection of new ADS sites	March, 1989
Review of contract proposals	March, 1989
Review status of GOP negotiations	March, 1989
Prime contract awarded	March, 1989
Team fielded	May, 1989
Begin monitoring prices of agricultural inputs	June, 1989
Selection of new ADS sites	June, 1989
Prime contractor prepares and submits for Mission approval 1st semi-annual workplan	June, 1989
Short-term training needs identified by prime contractor	July, 1989
Monitoring and analysis unit operational	September, 1989
Selection of new ADS sites	November, 1989
Prime contractor prepares and submits for Mission approval 2nd semi-annual workplan	December, 1989
Decision made re prime contract option or VITA extension	January, 1990
Mission schedules 1st formal evaluation	February, 1990
VITA contract ends	March, 1990
Evaluation held	March-May, 1990
Selection of new ADS sites pending fund availability	April, 1990 and thereafter as appropriate
Per evaluation recommendations, adjustments made in Project	May-June, 1990
Prime contractor prepares and submits to Mission 3rd semi-annual workplan	June, 1990
Prime contractor prepares and submits to Mission 4th semi-annual workplan	December, 1990
Mission determines timing for 2nd formal evaluation	June, 1991

Prime contractor prepares and submits to Mission 5th semi-annual workplan	June, 1991
Prime contractor prepares and submits to Mission 6th semiannual workplan	December, 1991
Evaluation held	To be determined
Prime contractor prepares and submits Mission 7th semi-annual workplan	June, 1992
Prime contractor begins Project closeout	December, 1992
PACD	March, 1993

Part V. PROGRAM FACTORS

A. Relationship to Transition Strategy

As articulated in the Transition Strategy, the primary focus for the Mission during the resettlement and rehabilitation period is to help ensure that conditions inside Afghanistan are such that the existing and returning populations are able to sustain themselves in the near-term. In order to respond appropriately, the Strategy states that the first tier of Project activities which warrant primary attention are food security and agricultural development.

The ASSP, as amended, attempts to address directly the issue of sustainability through the provision of resources directed at increasing agricultural production, especially in areas which previously produced at surplus levels. Efforts will be keyed to the identification and solution of key constraints which inhibit agricultural growth. A new focus will be geared to traditional surplus areas in the north, northwest and southwest. Continuing attention, in the form of the ongoing ARB's, will be devoted to the eastern provinces where the majority of the refugees are expected to return.

In sum, the Project goal and purposes directly relate to the Transition Strategy -- facilitation of resettlement through restoration of agricultural activity through infrastructure rehabilitation and assurance of availability of essential agricultural inputs. Agriculture is the primary livelihood of rural Afghans; it will be through agricultural revitalization and increased production of primary staples that will result in an environment conducive to the long-term resettlement of the Afghans.

B. Relationship to Other Donors

1. United Nations

The financial and manpower requirements of repatriating the millions of refugees now outside Afghanistan is far beyond the resources available to A.I.D. and the U.S. Government. The leadership of the United Nations (UN) will be required to coordinate a full-scale repatriation program, roughly estimated by the UN to cost $1.2 billion over an eighteen month period. In general, UN plans for the rehabilitation of agriculture in Afghanistan are still being formulated. The UN (WFP and UNHCR) is seriously considering a cash payment or "grubstake" program for initial assistance to returnees.

The so-called "grubstake" idea would provide $350 to each Afghan refugee family in Pakistan, upon submission of their UN ration book prior to their return to Afghanistan. The WFP and others would provide food commodities with the understanding that some of the commodities would be monetized within Pakistan and the proceeds used to support the repatriation program and/or food-and cash-for-work programs in Afghanistan as they developed. The UN also expects to undertake direct distribution programs to assist particularly needy groups such as internal refugees who, of course, have no ration books.

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Recent discussions with the WFP Representative in Pakistan indicate that further analysis and high level internal discussions still are underway with respect to the grubstake idea. The Mission will continue to coordinate with the UN on this matter. It should be noted, however, that the "grubstake" would complement the amended ASSP, not detract from it. If the UN is unable to get this idea off the ground by the time refugees start their return, the ASSP will still be able to provide assistance through the Rehabilitation Schemes and monitoring of inputs supply. It is expected, however, that demand for agricultural inputs might be somewhat less without a "grubstake."

2. Other Donors

It is unknown what role other donors will play in the sector at this time. It is thought likely that some donors (EEC countries, USSR) will wish to donate commodities, especially agricultural inputs. Again, to the extent there is donor involvement in the provision of agricultural inputs, the amended ASSP will be able to shift project resources from the financing of inputs to support for an increased number of rehabilitation schemes.

3. PVO's

The Mission's Rural Assistance Project (RAP) (306-0206), a successor to previous "cash-for-food" grants, provided $[illegible] million in grants in FY 1986 to five American and European PVOs to conduct emergency assistance and village assistance programs in Afghanistan. Several of the PVO's have worked closely with VITA, and most of them have extensive Afghan experience. The Mission will assure that future RAP grants are complementary to the ARS Project component. The Mission also is supporting initial planning and design efforts by CARE which may result in a food and cash for work program which would complement possible WFP efforts and be linked to the Project's ARS component. In considering CARE's proposals, the Mission will insure that they will not duplicate activities under the amended ASSP and, to the extent possible, will complement activities under the amended ASSP.

Given the current wheat deficit in Pakistan, estimated at 1,500,000 M.T., any PL 480 wheat swaps or sales in Pakistan should not constitute a disincentive to domestic Pakistan producers. There will not be a disincentive in Afghanistan during initial resettlement. The Mission will watch closely for such problems in later stages.

A few PVOs, with non-A.I.D. funding, are involved in cross-border agricultural assistance activities of a nature similar to VITA's. These include: Afghanaid, Austrian Relief Committee, and the Swedish Committee for Afghanistan. These activities are complimentary to the activities of the amended ASSP.

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PART VI. FINANCIAL PLAN

A. Project Budget

This amendment recommends an increase in A.I.D. funding for the ASSP of $54 million for a revised life of project funding level of $60 million. The Project's obligation schedule for the three year extension and expenditure are set forth below.

1. OBLIGATION ANALYSIS AND SCHEDULE ($000)

I.	Original ASSP		
	a. Obligations		
	- FY 87	1,500	
	- FY 88	4,500	
	Total	6,000	6,000
	b. Expenditures thru 9/30/86		3,558
	c. Pipeline		2,442
II.	Amended Activity		
	a. Estimated Cost 10/86-12/92		56,442
	b. Less Pipeline		2,442
	c. New obligations required		54,000
III.	Life of Project/Obligations (Ia + IIc)		60,000
IV.	Current Authorization		6,000
	Increase Required		54,000
	Total Authorization Requested		60,000
V.	Obligation Schedule		
	a. FY 89		16,000
	b. FY 90		18,000
	c. FY 91		20,000
	Total		54,000

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2. ILLUSTRATIVE EXPENDITURE BUDGET ($000)

A. AG REHABILITATION (ARS) SCHEMES AND INFRASTRUCTURE REHAB. SUBPROJECT

	FY 87/88	FY 89	FY 90	FY 91	FY 92	TOTAL
1. Technical Assistance	873	720	1,473	1,620	778	5,464
Home Office		100	210	231	115	656
Long Term TA		455	955	1,051	526	2,987
Consultants		90	150	165	50	455
Fees, other charges		75	158	173	87	493
2. Logistical Support	415	180	190	200	108	1,093
Office and Housing		104	166	172	86	528
Transportation		70	18	22	18	128
Office Equip. & Supplies		6	6	6	4	22
3. Program	1,818	2,245	2,755	3,211	1,946	11,975
a) Agri. Rehabilitation	622	1,045	1,355	1,611	1,184	5,817
Field Staff salaries		132	225	245	123	725
Planting Materials		250	313	376	275	1,214
Ag. Inputs (Fert.)		240	240	288	200	968
Machinery/Oxen		225	281	337	300	1,143
Travel/Per Diem		23	34	37	16	110
Const. Material & Equip.		175	262	328	270	1,035
b) Infrastructure Rehab.	1,196	960	1,100	1,250	540	5,046
Field Staff		132	225	245	122	724
Travel/Per Diem		23	34	37	18	112
Materials		483	505	774	300	2,062
Equipment		322	336	194	100	952
c) Agri. Commodities	0	240	300	350	222	1,112
Tractors, Equip., Spares		60	75	88	44	267
Seeds, Seedlings, Cuttings		60	75	87	43	265
Agri. Chemicals		96	120	140	120	476
Irri. Equip. and Material		24	30	35	15	104
SUBPROJECT TOTAL:	3,106	3,145	4,418	5,031	2,832	18,532

2. ILLUSTRATIVE EXPENDITURE BUDGET (CONT'D)

B. PRIVATE SECTOR AGRIBUSINESS - SUBPROJECT

	FY 87/88	FY 89	FY 90	FY 91	FY 92	TOTAL
1. TECHNICAL ASSISTANCE	0	619	1,090	1,168	544	3,421
Home Office Support		55	110	121	60	346
Long Term TA		210	420	462	231	1,323
Consultants		75	175	175	50	475
Fee, Other Charges		95	95	95	45	330
Local and Field Staff		125	250	275	138	788
Travel/Per Diem		59	40	40	20	159
2. LOGISTICAL SUPPORT	0	205	149	137	69	560
Office, Housing & Furnishings		114	98	113	57	382
Transportation		66	36	18	9	129
Office Equip. and Supplies		25	15	6	3	49
3. PROGRAM	452	8,779	11,845	12,670	1,241	34,987
a) Agricultural Commodities	452	8,629	11,495	12,270	891	33,737
b) Training	0	150	350	400	350	1,250
SUBPROJECT TOTAL:	452	9,603	13,084	13,975	1,854	38,968
C. CONTINGENCY/INFLATION	0	0	1,000	1,500	0	2,500
TOTAL PROJECT BUDGET:	3,558	12,748	18,502	20,506	4,686	60,000
3. OBLIGATION REQUIREMENT						
Obligations	6,000	16,000	18,000	20,000	0	60,000
Expenditures	3,558	12,748	18,502	20,506	4,686	60,000
Pipeline	2,442	5,694	5,192	4,686	0	0

NOTE: All FY 87/88 expenditures are the current VITA contract. FY 89 and a portion of FY 90 ARS expenditures are VITA's. The remainder of FY 90 will be either through an extension of the VITA contract or through the prime contract option. See IV-A. VITA will continue to incur some PSA subproject expenditures in FY 8

B. Local Currency Programming

Government of Pakistan-owned local currency will be generated as a result of dollars provided to the GOP for hard currency losses associated with the increased export of various agricultural commodities to Afghanistan, e.g., fertilizer. The GOP-owned rupees will be placed in a Trust Fund under total A.I.D. control. The principal advantage of a GOP-owned, U.S.-controlled Trust Fund is that rupee funds are kept in the project and do not get confused with U.S.-owned rupees for Pakistan.

The Mission will negotiate an agreement with the GOP (to be spelled out in an appropriate document) prior to undertaking the initiation of the PSA component. The agreement will stipulate that the Pakistani-owned rupees will be used at the sole discretion of A.I.D. or whomever else A.I.D. may designate as a manager. Disbursement of rupees will be made against A.I.D. approved contractor invoices for previously approved uses.

It is not possible at this time to estimate the sums which will be generated. This will be determined by the amount of foreign exchange components in the Pakistan inputs to be exported, the subsidy involved in transactions and negotiations with the GOP. Please refer to Annex I, Details of Private Sector Agribusiness Components, for additional information.

PART VII. PROJECT ANALYSIS

A. Technical Analysis

1. Overview - Nearly a decade of war has devastated the rural economy of Afghanistan. Total agricultural production has fallen to about half the pre-war level due to destruction and lack of maintenance of irrigation systems, a loss of draught power, disruption of services, and the exodus of a large portion of the rural population. With the prospect of reduced fighting, the refugee and displaced Afghan population should begin returning to their farms. The returning population needs assistance to rehabilitate their farms to be able to provide for themselves. A means toward this end would be to provide the farming population with agricultural and related inputs. A private sector commodity import program is the chosen mechanism. The discussion below provides a brief assessment of the feasibility/appropriateness of the Project's activities.

2. Agricultural Rehabilitation Schemes (ARS) - Support to Agricultural Rehabilitation (previously "Area Development") Schemes has been the primary mechanism for providing assistance to this sector. As of November 1988, there were twelve schemes in eight provinces where the Project was sending tractors, threshers, reapers, bullocks and improved seed as well as rehabilitating karezes and repairing roads. This mechanism was chosen based on the inability of the Alliance Agricultural Council and its nascent technical working group to function appropriately. In order to fill this "institutional" void, the Area Development/Agricultural Rehabilitation Scheme concept was initiated to serve as the mechanism for delivering goods and services to facilitate agricultural rehabilitation. This concept has proven sound. Inputs continue to be sent in and agricultural infrastructure is being rehabilitated. Several thousand requests for initiation of such schemes are pending. In a recent six week trip in Afghanistan, a U.N. survey team found "VITA" to be a household word everywhere it went and the Project's services greatly appreciated.

3. Private Sector Agribusiness - Agricultural production, though at reduced levels, has continued despite the conflict. As a result, farmers have demanded necessary agricultural inputs. However, the distribution of agricultural inputs and products has suffered as a result of present government (Kabul) policy and the War. Many farmers have been unable to obtain the inputs desired as a result of inadequacies in the marketing system and in some cases due to the prices. The provision of inputs through sale in the private sector has been promoted on a discrete basis by the ASSP. Although exploratory in nature, the value of commodities exported to date is $1.5 million.

This success confirms a demand and shows that the distribution infrastructure functions --- entrepreneurs are willing to work with this system. What is unknown is the extent to which the current system can expand to accommodate greater demand. While appropriate in the

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short-term, given the numbers of refugees expected to return over the next several years, it is unclear how the present system will function. It may be necessary to revert to another type of procurement/marketing system.

F. Administrative Analysis

1. Volunteers in Technical Assistance (VITA) -- To date, VITA has been successful in the establishment and implementation of three programs that deliver goods and services across the border. They have developed systems and mechanisms to rehabilitate small-scale irrigation systems and farm-to-market roads. They were also instrumental in promoting a successful private sector activity. The recent Project Assessment (Annex A) bears witness to VITA's successes.

While field activities reflect considerable achievements, home office support has been inefficient. In order to correct this problem, as part of the VITA contract amendment, one full-time senior technical officer will be assigned responsibility for backstopping VITA in the field.

2. New "Prime" Contractor - One of the major factors in the selection of the primary contractor will be the presentation of a team with substantial experience in Afghanistan and experience working with the agribusiness sector in Pakistan. A secondary concern will be home office support capability. The contractor will be expected to show experience in supporting a major, complex project.

At present, there does not exist an Afghan entity with which the amended ASBP can coordinate. Cooperation with Afghans has been and will continue to be through the Alliance (or its successor), commanders, shuras, and local leaders who contact the Project for assistance.

G. Financial/Economic Analysis

1. Aggregate Project Cost Benefit Analysis

The recent evaluation of the ASBP indicates that Project activities to date have been comparatively low cost and cost effective. Similarly, the activities proposed in the amendment should continue to be cost effective and should have higher cost benefit ratios than the earlier activities for two reasons: they will benefit from the trial and error experience of VITA's activities; and a requirement of the amended VITA contract is the development of a plan to analyze and prioritize future activities on the basis of cost-benefit criteria as well as long-term economic measures.

The basis of the rationale for the Mission's strategy articulated in this document, is very straightforward -- the returning population must be fed. This means a supply of wheat either domestically produced in Afghanistan or obtained from foreign sources. A paragraph from a background paper by Dr. Azam Gul and Dr. H. M. Hepworth brings the argument into focus.

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The major item in the Afghan diet is nan, the flat, whole wheat bread preferred by Afghans. In fact, wheat is produced on well over 50 percent of all the cropland seeded (2.34 million hectares). The total per capita wheat utilization for Afghans is 200 kg. per year, one of the highest in the world. Wheat provides nearly 80 percent of the caloric intake for most Afghans. In order to assist Afghan farmers to increase wheat production three basic inputs are essential: water, seed and fertilizer.(1)

The design of the ASSP amendment concentrates on the constraints to agricultural production and a straight forward economic/financial argument can be built to justify this approach. The cost of a ton of food wheat delivered in Afghanistan is about the same as the cost of a ton of fertilizer. Similarly, the cost of a ton of wheat seed is not much more costly than a ton of food wheat by the time both are available where needed in Afghanistan. The question then becomes a comparison of what is gained from importing fertilizer and wheat seed compared to importing food wheat or flour. The increase in production potential from an improved, disease-resistant, variety of wheat such as FAK 81 or PIRSABAK 85 is at least three to one and may be as great as ten to one. Likewise, the "rule of thumb return" to fertilizer is four to one. Based on the standard recommended application rate of a combination of 100 kg. of seed and 400 kg. of fertilizer per hectare results should show a high positive cost benefit ratio compared to importing five tons of food wheat or flour. The analysis in a Chemonics fertilizer report (October, 1988) draws the following conclusion.

> One kg. of fertilizer will produce four kg. of wheat. The prices of urea, DAP, and wheat are the following:
>
> Official prices: Urea, Afs. 600/50 kg. or about $60/MT
> DAP, Afs. 700/50 kg. bag or $70/MT
> Wheat, Afs. 200/seer equals about $130/MT
>
> With one kg. of fertilizer producing 4 kg. of wheat, at official prices, $60 worth of urea produces $520 worth of wheat (4 x $130). This is a cost/benefit ratio of almost 9:1 (the farmer gets Afs. 9 back in wheat for each Af. used for fertilizer). Since a return of Afs. 3 for each Af. spent on fertilizer is usually sufficient inducement for farmers to invest in fertilizer, this benefit/cost ratio of 9:1 is far more than enough to interest farmers in purchasing and using the commodity.
>
> Even if several of the assumptions are changed -- e.g., doubling the price of fertilizer to the black market rate and dropping the impact of the fertilizer on wheat from 4:1 to 3:1 -- we still have $120 in fertilizer producing $390 worth of wheat, a cost/benefit ratio still in excess of 3:1.

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(1) Hepworth, Homer and Gul, Azam. Wheat Price movements over the last [illegible] years (1978/-1986). 1986. (Study for A.I.D./Rep)

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Similarly, cost/benefit ratios can be developed for improved wheat seed. There are a wide range of cost/benefit ratios for wheat seed depending on the assumptions used in the calculations. However, the range begins at a minimum of three to one and increases dramatically, all justifying, the use of wheat seed.

The financial and economic justification for rehabilitation of the irrigation systems disrupted by the War is even more fundamental. Again, the Chemonics report concludes the following about irrigation.

> In Afghanistan, most fertilizer and quality seed is used on irrigated land; crops grown on rainfed land rarely respond enough to fertilizer to justify the cost. Therefore, continued efforts to restore irrigation facilities must go hand-in-hand with the inputs program if both are to be effective.

The average cost to VITA to rehabilitate a hectare of land and bring it back into irrigated production is twenty-five dollars. Given the fact that the average yield from irrigated wheat is four times that of rainfed dryland production, the long term economic returns to irrigation rehabilitation are far above those established as acceptable by A.I.D.

The rationale for the importation of mechanized farm equipment and tractor power is based on shortages of farm labor, particularly at harvest, and a loss of oxen draught power for soil preparation. The adoption of threshers throughout Pakistan over the last ten years by small and medium-sized farms is a good example of the advantage farmers see in mechanized harvesting. When these same threshers were made available to Afghan farmers, they were quickly bought with most threshers ending up in major wheat producing regions which are short of harvest labor. The financial benefits from a thresher, with which four men can do as much in a day as a ten man crew with oxen can do in a week, is easy to determine.

In conclusion, the best estimates for the range of positive cost/benefit ratios for seed, fertilizer, equipment and irrigated land ranges from three to one to nine to one. In terms of both cost and logistics, the magnitude of the task of annually supplying an average of 200 kg. of wheat or flour to three million returning Afghans, compared to supplying the inputs to produce the same amount of wheat, argues strongly for the latter.

2. <u>Recurrent Costs and Future Financial Implications</u>

The question of the financial capacity of the "new" Afghan Government (GOA) to maintain a rural/agricultural works program after the completion of the amended ASSP must be addressed. There should be few, if any, recurring costs at the completion of the Project. The agricultural inputs component is by design a private sector activity which will make commodities available for sale through private distribution channels. Once the commodities are delivered to the ultimate user, the activity is completed without the creation of a recurrent cost. Similarly, the rehabilitation activities being undertaken in the Agricultural

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Rehabilitation Schemes (ARS) are discrete activities which upon completion would have no new or additional recurrent costs which were not part of the pre-War productive fiber of the agricultural community. Moreover, the ARS are not institution-building activities that need to be staffed by professionals in order to be of economic value.

If on the other hand, a "new" Afghan Government decides that a Rural Development Department (RDD) similar to the one existing in 1976 should be reestablished, the ARS cadre might form a nucleus for that department. Under those circumstances, an analysis of the financial experience of the VITA Rural Works activity should be of value. The majority of the ARS' recurrent costs are generated by the salaries of the in-country staff. At present each ARS is budgeted at an annual cost of $30,000, of which $24,000 is for staff salaries and the remaining $6,000 for administration.

The pre-War RDD had grown, with A.I.D. support, to the point that in 1976, it had an annual budget of $1 million in local currency. It was scheduled to construct 8 small bridges, 15 km of roads and 14 water control structures in that yaer. Where the reestablishment of a RDD will fit into the priorities of a post-War GOA is difficult to determine at this time. However, the prioritizing of financial requirements to meet both an administrative and a development budget will certainly be an important activity for a new government.

In any event, A.I.D. has a number of options at the completion of the amended ASSP activity. It could, for example, continue to directly support an ASSP type activity. Should A.I.D. decide against continued support, the following options would be possibilities:

- normal termination of the Project with no extension or phaseout period;
- termination with a phaseout over time;
- continued funding through local currency generated from non-project sources; or,
- other bi-lateral or multi-lateral donors could be encouraged to assume support.

D. Social Analysis(1)

1. Social Political Environment - The social and political context in which the ASSP is designed is fluid and complex. This situation impacts greatly on the design choices and creates the special needs for which this agricultural project is designed. The particular social-political features are created by the necessity of operating a cross-border project without the direct cooperation of a government, working in a war area, developing a program with a largely illiterate society, and working with conservative and traditional Islamic people.

a. The Alliance

To understand the social and political situation in which the ASSP must operate, it is necessary to understand the evolution of political leadership in the Afghan War and among the Afghan refugees. The War of liberation in Afghanistan has been going on for ten years and appears to be nearing an end. The freedom fighters, called Mujahideen, are organized into seven major resistance parties, called Tanzims, that are themselves allied into a Seven Party Alliance, called the Islamic Unity of the Afghan Mujahideen (Alliance). The Alliance parties conduct the War in Afghanistan, each party having from 10 to 50 thousand fighters. The seven parties vary in structure and organization, some being well organized and disciplined while others are not much more than a loose group of independent commanders.

As the War has gone on, the parties have moved into non-military concerns, such as health and education, as they realize that the population in the liberated areas of Afghanistan and in the refugee camps of Pakistan must also be taken care of. Each of the parties operate a number of schools and hospitals or clinics inside Afghanistan, many with the help of A.I.D..

The Alliance is a quasi-governmental organization and to some degree can be said to represent Afghans who oppose the Marxist government in Kabul and the Soviet occupiers. As such, the Alliance offers an organization through which humanitarian assistance can be channelled to most of the liberated areas of Afghanistan.

Working through the Alliance, however, has its drawbacks. For one the various parties within the Alliance often fail to cooperate in meaningful ways. The leaders of the seven parties come from different ideological and religious backgrounds, making cooperation at times difficult. In addition, the leaders of the Tanzims were not always leaders in Afghanistan before the War, and therefore, are not always

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(1) Adapted from Social Analysis of Education Sector Support Program

trusted or respected by all Afghans. The authority of the leaders of the Alliance is not based on the traditional Afghan political structure which rests on tribal or territorial power. Rather, authority is based on their ability to control resources that the international community channels to the Afghan cause through Pakistan.

The Alliance also does not represent people from all segments of Afghan society. The leaders of the parties, save one, are primarily from the area of Afghanistan that is near the Pakistan border. Therefore, people from the center, north and west of Afghanistan are under-represented. In addition, the leaders of the Alliance are all Sunni Moslems, and as a result, the estimated ten percent of the population of Afghanistan who follow the Shi'ia branch of Islam is poorly represented.

b. Regional Councils

Other power bases are evolving in Afghanistan as the War progresses. Regional councils, or shuras, of commanders or traditional elders are emerging in some areas. In many cases, these councils maintain minimal allegiance to the Alliance in Peshawar. In fact, they have increasingly staked out independent positions. In essence they are acting as regional or local governments and are assuming more governing roles. Regional councils exist in the north of Afghanistan, around Herat, and in Kandahar and Bamyan. The Shuras associated with the ASSP are making decisions and managing resources. Fees are being charged by them for tractor use; they have auctioned oxen generating currency, and coordination with the ARS field staff is good.

c. Individual Commanders

The third option for delivering humanitarian aid to Afghanistan is to work through individual commanders. They work closely with the civilian population in some areas and organize schools and health clinics for the population in the areas they control. Most commanders also have connections with Alliance parties in Peshawar, but that connection varies from strong to virtually nonexistent.

By channelling humanitarian aid through individual commanders, some relief organizations feel they can exercise better control. By selecting only commanders thought to be trustworthy, there organizations believe that they have a better chance of actually getting the aid to where it should go and have better accountability.

Working with individual commanders also has many of the disadvantages of working with the councils. For one, it does not encourage nation-building and could lead to a country composed of small fiefdoms. And by selecting just those commanders found to be honest according to Western criteria, aid is probably not distributed on a fair basis.

2. Beneficiaries of the amended ASSP will be the farmers who elect to participate in Components 1 and 2, the refugees in general, and private sector businessmen in both Afghanistan and Pakistan who elect to participate in Component 2 of the ASSP.

a. Refugees and internally displaced Afghans will benefit from the increased availability of food on the market. One full production season must be completed, before any surpluses due to the Project will be visible.

b. Farmers will benefit due to the increased availability of needed agricultural inputs for production. They will also benefit from the rehabilitation of fields and agricultural infrastructure. Agricultural revitalization will result in increased food availability for the farmer and his family as well as increased income due to surpluses sold on the market.

c. Private Sector Businessmen will benefit as a result of increased demand for agricultural inputs and the increased demand for their services as middlemen, either procuring or transporting goods into Afghanistan.

3. The Role of Women. Afghanistan has a sex segregated society in which women have traditionally been confined to the private sphere of home and family. To the casual observer in an Afghan bazaar or political meeting, it often appears that half the population is missing. Over the past 80 years, the role women should play in society has been one of the most volatile issues on the Afghan political agenda. For example, reforms of the marriage laws in the 1920s were used as one justification for the rebellion that overthrew King Amanullah, while attempts by the PDPA to physically enforce attendance at compulsory women's literacy classes provoked the murder of local officials. Any project planning on women's issues requires obvious special care and attention.

In the agricultural sphere, this public/private distinction excludes the participation of women in fieldwork or other open activities which would lower the prestige of the family. There are some exceptions to this rule. For example, among the Nuristani peoples of Kunar province, women take responsibility for agriculture, and Pashtun nomad women have a far more public role than their sedentary sisters. This does not mean that women lack an economic role in the farm economy, only that men are expected to handle production while women handle the processing.

Because of the War, it has been estimated that there may be as many as a million women who have lost their husbands, although such estimates are based on guesswork. Nevertheless, the role of widowed women in Afghan society will be an important issue. By custom, widows often marry the younger brother of their husband if he dies. Since Islam permits a man to take as many as four wives, in theory, many of these women could remarry. However, if an Afghan woman has a son, she will normally refuse to remarry in order to administer her husband's estate in trust for her children.

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Remarriage would put such property rights in jeopardy. These women-headed households will, therefore, be common in many villages and it is unknown at this time whether they will have any special requirements. It cannot yet be determined if the shortage of agricultural labor will lead to more use of women in agriculture in the near-term.

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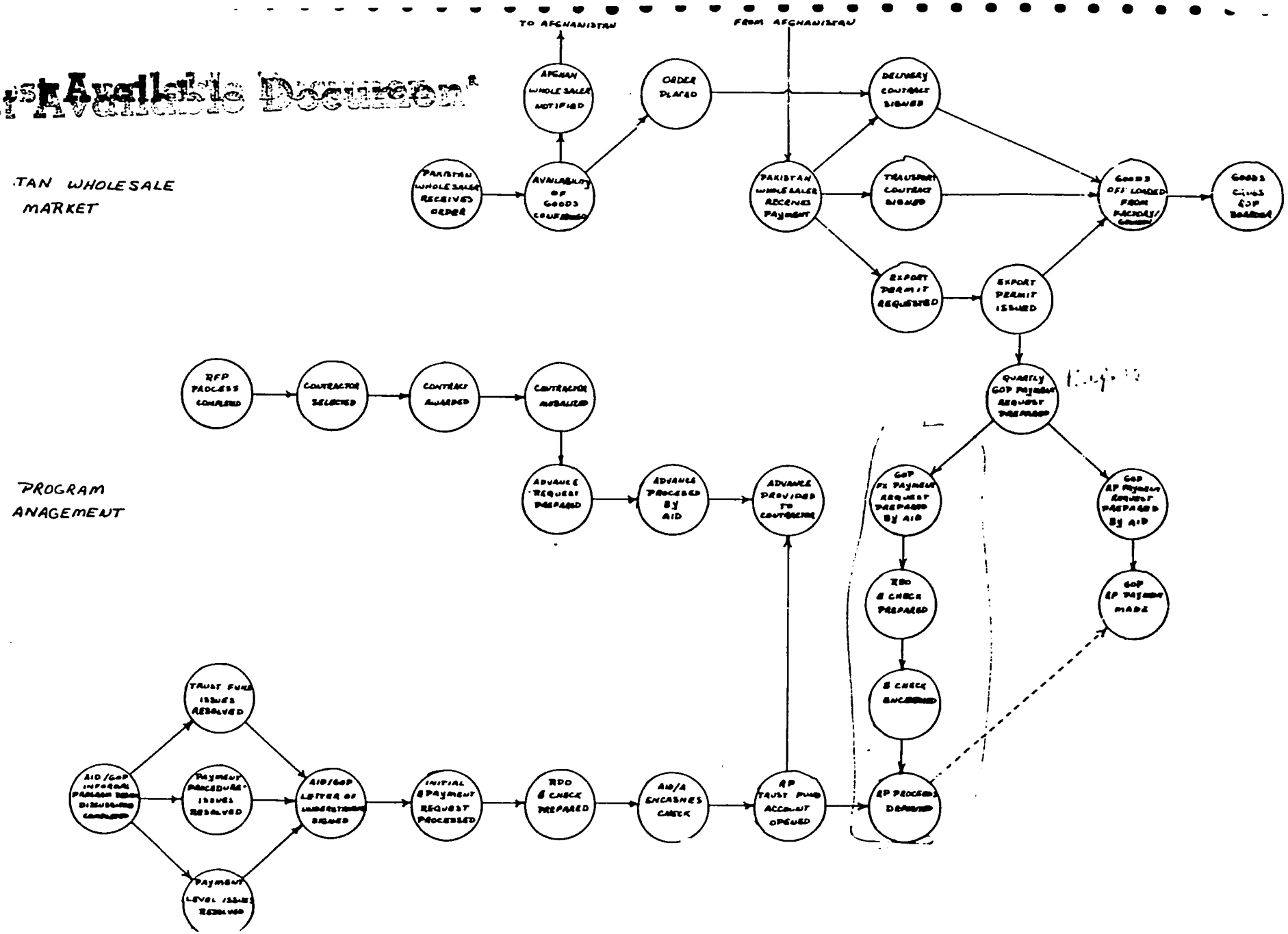

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ANNEX A

ASSESSMENT

of the

AGRICULTURAL SECTOR SUPPORT PROJECT
(306-0204)

December 9, 1988

RONCO Consulting Corporation

in association with

Devres, Inc.

DRAFT

EXECUTIVE SUMMARY

On April 1, 1987. A.I.D. authorized the Agricultural Sector Support Project, with a two-fold purpose:

1. To provide resources to support increased agricultural productivity in selected areas of Afghanistan (from a base in Peshawar, Pakistan); and

2. To support the growth of institutional mechanisms to use the resources provided under the project.

The purpose of this evaluation was to do an assessment of the ongoing project and its technical assistance (provided by Volunteers in Technical Assistance, VITA) with the objective of identifying possible improvements/modifications leading to a redesign to meet the changing needs inside Afghanistan.

The assessment was conducted over about a three-week period, mostly in Peshawar, Pakistan, by a contract team of five technical specialists (team leader, senior agriculturist, agronomist, civil engineer, anthropologist) with experience in Afghanistan and Pakistan. The team reviewed files and background documents for the project; discussed with VITA staff the project's history, problems encountered, accomplishments, and issues; discussed with representatives of other organizations which have interfaced with the project their relationships, problems, and benefits from the project; discussed with representatives of the Government of Pakistan and agribusinesses in Pakistan their interest in and possible cooperation in an expanded effort from Pakistan to assist agriculture in Afghanistan via this project during the next three years; and briefed the Office of the A.I.D. Representative for Afghanistan (in the U.S. Emabassy in Islamabad) on the findings and conclusions. (Following the assessment, the contract team assisted with redesign of the project and drafting of an Amended Activity Approval Memorandum).

Findings and Conclusions

The project has made remarkable achievements in a short time. It is the only significant cross-border program in agriculture and rural development. It has a strong Afghan character. Institutions and systems have been developed to rehabilitate small-scale irrigation systems and farm-to-market roads. The implementing contractor has given advice to private voluntary organizations (PVO) and has collaborated in the field with some of them. A small but highly successful experimental activity has been developed to distribute agricultural equipment

through the private sector.

The project has been somewhat less successful in developing an organized agricultural assistance program than it has in implementing rural works types of rehabilitation activities. To a large extent, this is because about one year was lost, through no fault of the project managers, in attempting without success to work through the Agricultural Council of the seven-party Alliance. Once the Council mechanism proved unworkable, the project began to do agricultural work through a new vehicle--the field-structure of the Rural Works Division's Area Development Schemes. Only then was much accomplished in agriculture, per se. The exception to this was the experimental activity in distributing selected items of farm equipment through the private sector, which was started simultaneously with the attempt to work through the Council.

Definition of, and planning for, agricultural field testing operations was hampered in that VITA has limited technical depth in its U.S.-based office on which the field office can call for assistance. Home-office problems with financial and administrative management have slowed field activities.

Principal Recommendations

Follow-on activities should build on the considerable and solid record of successes already achieved:

1. The cross-border rural development and agriculture component should be continued and, as conditions permit, the number of teams should be increased from the existing 12 to about 15.

2. As security conditions permit, the locations of some of the teams should shift somewhat to the most agriculturally productive areas, to areas in which shuras or other local community organizations exist or are likely to become functional, and to areas which will place teams in representative territories of the main ethnic groups of Afghanistan.

3. The name of this set of activities should be changed from Area Development Schemes to the Agricultural Rehabilitation Schemes (ARS), to portray more accurately the purpose and functions of the component.

4. The main objective of the ARS teams should be to solve problems that have arisen due to events of the war, namely:

- Damage to community-owned, small-scale irrigation schemes;
- Damage to rural roads and bridges;
- Loss of draft power due to approximately half of the pre-war numbers of oxen having been

killed;

- Growth of grass, weeds and shrubs on land that has been left untilled for several years, making it very difficult to till with traditional tools and methods; and

- Deterioration of seed varieties and vegetative planting materials.

5. Enough flexibility should be included in this component so that in special cases, whether they be additional problems or potentially high pay-off opportunities, other activities can be carried out with approval of project managers and O/AID/Rep.

6. To focus on those problems, each ARS team should be structured, under leadership of a team director, into two groups:

- One for infrastructure rehabilitation (irrigation systems, roads, and bridges); and

- One for the testing and demonstration of agricultural production technology.

7. VITA should add a deputy to the Director of the Rural Works Division; add up to four more senior Afghans, at least one of whom should be very strong in agriculture, to the VITA/Peshawar staff; and strengthen sufficiently the agricultural field staff in the ARSs to perform the functions of testing and demonstration of agricultural production technology.

8. The commercial channels subcomponent should be re-defined as the Private Sector Agribusiness (PSA) component, and should function as the mechanism for getting a substantially increased volume of critical agricultural inputs and supplies into Afghanistan from Pakistan. This activity should be conducted to the extent possible through private-sector traders, dealers and businesses, although non-market channels might be used in special situations.

9. A Monitoring and Analysis component should be created with the objective of strengthening the functions of planning, monitoring, evaluation and analysis of project activities.

10. Because of the enlarged scope of the commercial channels or PSA component, and the specialized nature of this and the monitoring and analysis activities, a new contractor(s) with experience and competence in commodity import procedures, in private-sector agribusiness management, and in monitoring, evaluation, and analysis should be selected to implement these two components.

Project Identification Data Sheet

1. Country: Afghanistan

2. Project Title: Agricultural Sector Support Project

3. Project Number: 306-0204

4. Project Dates:

a.	Project Authorized:	April 1, 1987
b.	First Project Agreement:	Not applicable
c.	Final Obligation Date:	FY __ (planned/actual)
d.	Most recent PACD:	March 31, 1990

5. Project Funding

A.I.D. Bilateral Funding (grant) US$ 6.0 million

6. Mode of Implementation: A.I.D. direct contract

Contractor: Volunteers in Technical Assistance (VITA)
Subcontractor: Department of Geography,
University of Nebraska, Omaha

7. Project Designers:

a. O/AID/Rep
b. VITA

8. Responsible Mission Officials

a.	A.I.D. Representative:	Larry Crandall
b.	Project Officers:	A. J. Nehoda, 4/1/87 to 7/31/88 Gary Lewis, 8/1/88 to present

9. Previous Evaluations: None

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Attachments

Attachment 1: Scope of Work

Attachment 2: Composition of Assessment Team

I. THE SETTING

The Agricultural Sector Support Project (ASSP) was initiated in April, 1987 to help rehabilitate agriculture in Afghanistan. The agricultural economy had suffered from nearly a decade of war, which included systematic destruction of animals and crops. According to a comprehensive agricultural survey undertaken as of 1987, food production had dropped to 45 percent of 1978 levels, 30 percent of the land had been left uncultivated, the number of cattle had decreased by 55 percent, the number of sheep and goats by 66 percent, and the number of horses by 45 percent.(1) Rural infrastructure, such as irrigation systems and farm-to-market roads, had been damaged. In addition, the farm labor supply had been reduced drastically through deaths (estimated at between 1 and 2.5 million) and injuries associated with the war, by virtue of refugees (estimated at about 5 million persons) who had crossed over into Pakistan and Iran, and through internal movement within Afghanistan of large numbers of people (estimated at an additional 2 to 3 million people) to get away from areas of active military conflict.

While some areas inside Afghanistan have become liberated since the project was initiated, conditions in most of the country have remained quite unsettled, at best, and much of the country has been actively at war. Such is the setting in which cross-border activities in agriculture and rural development have been carried out.

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(1) First Report on the Agricultural Survey of Afghanistan, implemented by Dr. Azam Gul, Director of Survey, Swedish Committee for Afghanistan (Peshawar, May 1988)

II. THE PROJECT

A. Purpose

The project purpose is two-fold:

1. to provide resources to support increased agricultural productivity in selected areas of Afghanistan, and

2. to support the growth of institutional mechanisms to use the resources provided under the project.

B. Overview of the Project

The original project concept included two "tracks" for implementing field activities inside Afghanistan. Track I was to have been an agricultural development program implemented by the Afghanistan Agricultural Project (AAP), which was to have been formed by the seven-party Alliance and operated under the policy guidance of the Alliance's Agricultural Council. Track II was to be a program for involving commercial channels in the sale inside Afghanistan of selected items of farm machinery and related inputs. It was also to be the mechanism for assisting private voluntary organizations (PVO) to become involved in agricultural activities. Track II operated about as had originally been envisioned. Track I did not, primarily because the Agricultural Council and the AAP did not become functional. Meanwhile, VITA's planning staff in Peshawar conceived a program to assist with reconstructing selected items of infrastructure which were deemed to be crucial to the rehabilitation of agricultural production: namely, traditional irrigation systems and rural roads in selected areas. This rural works program was designated Track III. The project and VITA's contract were amended in August, 1987 to incorporate the rural works activities, and VITA established a Rural Works Division to implement the program.

C. Project Components

The Agricultural Sector Support Project (ASSP) has four sub-components (one in planning and three in field activities):

1. Planning

The Planning sub-component, which is at the apex of the project, has the functions of formulation and promulgation of project implementation policy (within the general policy guidelines provided by the Office of the A.I.D. Representative for Afghanistan (AID/Rep), planning the use of project resources, monitoring and evaluating project activities, and overall management of the project.

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2. Field Activities

Field activities are divided into three sub-components, or "tracks." The chronology of the development of the programs under the three tracks is shown schematically in Figure 1. The original project had only two tracks. It was envisioned under Track I that an Afghan organization would be created as the primary vehicle for implementing the project. This entity--the Afghan Agricultural Project (AAP)--was to have been composed of Afghan technocrats, nominated by Afghan political parties from the seven-party Alliance. The AAP was to function under the direction of an Agricultural Council, which was to have been a policy-making body comprised of one representative from each of the seven parties. For a number of reasons, the AAP never became functional.

Track II was intended to run parallel to Track I. Under the policy guidance of a Steering Committee composed of representatives of the Office of AID/Rep and the Government of Pakistan (GOP), VITA could channel financial resources and technical assistance to the AAP or, alternatively, as circumstances dictated, channel resources to private-sector groups and organizations which have the ability to work in the agricultural sector of Afghanistan. Because the AAP did not become functional, Track II was implemented under the alternate mode; it provides resources through the private sector and PVOs.

Because Track I did not show promise, VITA staff began looking for other ways to achieve the agricultural objectives of the project and, with the assistance of the pre-war Director of Afghanistan's Rural Works Department, conceived a rural works program to be implemented in a manner similar to that of the former Department. On a trial basis, an "area development scheme" was included as a part of the rural works concept. Nominally, the scheme was to include agricultural as well as rural works activities. In August 1987, the Activity Approval Memorandum (AAM) for the project was amended to add the third component, or track, to constitute a rural works program to complement the other two tracks in support of the agricultural sector. Rural Works was defined to include karez cleaning and other minor irrigation improvements, road and track construction and improvement, and area development schemes. Within the context of an Area Development Scheme (ADS), it was envisioned that the project would provide fertilizer, seeds, oxen, and perhaps flour mills in addition to works in minor irrigation and roads. Track III would also implement rural works activities outside of specific ADS areas. In fact, until recently, most of the activities under Track III were in irrigation and road rehabilitation outside the confines of an ADS.

Figure 1.

Schematic of Programs under Tracks I, II and III
Agricultural Sector Support Project

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          Track I          Track II            Track III

Apr/87     AAP            Commercial/PVOs
May         !                  !
Jun                            !
Jul         !                  !
Aug                            !              Rural Works
Sep         !                  !                     ! 1 ADS
Oct                            !                     ! 1 ADS
Nov         !                  !                     ! 1 ADS
Dec                            !                     ! 1 ADS
Jan/88      !                  !                     ! 1 ADS
Feb                            !                     ! 1 ADS
Mar         !                  !                     ! 1 ADS
Apr                            !                     ! 1 ADS
May                            !                     ! 1 ADS
Jun                            !                     ! 1 ADS
Jul                            !                     ! 8 ADS
Aug                            !                     !10 ADS
Sep       10 ADS  <-----------------------------------
Oct       12 ADS               !                     !
Nov       12 ADS               !                     !
Dec       12 ADS               !                     !
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One pilot ADS was initiated in August-September, 1987. Based on the experience, several additional ones were added in the summer of 1988, as indicated in Figure 1.

VITA became convinced in mid-1988 that the ADS concept could serve as an institutional mechanism for delivering goods and services to facilitate agricultural rehabilitation and, in that sense, could help fill the "institutional" void left by the defunct AAP. Consequently, VITA shifted the ADS program from Track III to Track I, as indicated in Figure 1. Rural works outside the ADS areas continue to be in Track III, while rural works within ADS areas were considered to be an integral part of the newly-defined Track I.

As of November 1988, there were twelve Area Development Schemes in eight provinces where the project was sending tractors, threshers, reapers, bullocks, and improved seed. VITA's Rural Works Division (RWD) was cleaning karezes (traditional irrigation systems) and canals, constructing or rehabilitating rural roads, and building bridges in 16 provinces. RWD had day-to-day operational responsibility for supervising the Area Development Schemes. The Planning Office in Peshawar was working with private sector Afghan businessmen to encourage the delivery of appropriate agricultural machinery and equipment to rural areas of Afghanistan, and had collaborative programs with four or five PVOs, including both U.S. and third-country organizations.

III. ACCOMPLISHMENTS

The Agricultural Sector Support Project (ASSP) was authorized on April 1, 1987. In the short time since, the project has made remarkable achievements. It is the only significant cross-border program in agriculture and rural development. It has a strong Afghan character. Institutions and systems have been developed to rehabilitate small-scale irrigation systems and farm-to-market roads. The implementing contractor, VITA, has given guidance to private voluntary organizations (PVO) and has collaborated in the field with some of them. A small but highly successful experimental activity has been developed to distribute agricultural equipment through the private sector.

The ASSP has been somewhat less successful in developing a specific agricultural assistance program than it has in implementing agriculturally related (irrigation and roads) rural works types of rehabilitation activities. To a large extent, this is because about one year was lost, through no fault of the project managers, in attempting without success to work through the Agricultural Council of the seven party Alliance. Once the Council collapsed, the project began to do agricultural work through a new vehicle--the field-structure of the Rural Works Division's Area Development Schemes. Only then was much accomplished in agriculture, per se. The exception to this was the experimental activity in distributing selected items of agricultural equipment through the private sector, which was started simultaneously with the attempt to work through the Alliance's Agricultural Council.

Definition of, and planning for, agricultural field operations was somewhat hampered in that VITA has limited technical depth in its U.S.-based office on which the field office can call for assistance. Home-office problems with financial and administrative management have at times slowed field activities.

Three offices have been established by VITA/Peshawar: one for administration and planning; one for rural works and area development schemes; and one for financial control/operations.

Three programs have been established to deliver goods and services across the border, in addition to the planning and administration functions carried out in Peshawar. The remainder of this section is organized around the sub-components: (a) planning; (b) agriculture; (c) commercial and PVO operations; and (d) rural works activities.

A. Planning

In the original project concept, planning was to be one of the important functions operating in parallel with, and acting as the guiding mechanism for, the field activities. Planning as visualized included the following elements:

1. Traditional project planning which was fairly heavily oriented to the short-range, since it had to undertake work in a war-torn climate in the midst of potential, if not real, day-to-day risks of military operations, with associated personal risks and loss to equipment and infrastructure. The overriding situation precluded normal, on-site planning and monitoring.

2. A concept of in-process, rolling redesign intended to permit maximum flexibility to respond to changing conditions, to experiment with alternative approaches, and to concentrate on those activities which proved most technically and manageably feasible and acceptable to potential participants and beneficiaries in Afghanistan at particular times.

3. Substantial work with support of and guidance from the Agricultural Council composed of representatives of six of the seven political parties.

Although it was not explicitly articulated, it can be assumed that if the Council had functioned even moderately well it would have been the recipient of considerable direct aid to strengthen its own information gathering, analytical and planning capacity. However, in large part because of conflicting interests, including turf competition among the parties, it never functioned effectively and the idea was ultimately abandoned, after more than a year of attempting to work with it. Whether it could have been made effective by different approaches to its involvement, support and use is problematical, but the failure may be a harbinger of potential problems in dealing with different groups as the general political situation shifts in the future.

Within the concept of rolling design (or redesign), the project ultimately placed primary emphasis on the Area Development Scheme and Rural Development programs, plus an experimental program of equipment supplied through commercial channels. This latter program, thus far, has been fairly small, in part due to the need for results of field tests of tractors and other machinery with respect to suitability and the potential for sharing among famers.

Planning has been very informal. VITA's senior staff (Wakil, Garner and, later, Sediq) personally identified

opportunities and selected priorities based fairly heavily on first-hand information. That mode of planning can work well at a small scale of operation and with simple activities. Initially, the activities were small in number and simple -- a few karezes and small amounts of farm machinery for testing. However, such a system can break down as numbers, size and complexity of activities grow, and as macro-level issues need to be addressed.

VITA, as the principal implementing entity, has been expected to work with and support PVOs and NGOs from the United States and other countries, as well as work directly with people inside Afghanistan. These high levels of expectations have created a major load on the project's (VITA's) planning, implementation and monitoring activities.

Lack of hard information on the situation inside Afghanistan has been an obstacle to efficient planning, monitoring and definition of problems the project is expected to address. The problem of inadequate information needs to be addressed for better definition and monitoring of future activities. A related planning issue is one of defining the magnitude of the problems the project is expected to address. The project, as conceived and as operated to date, requires site specific, micro data for efficient implementation. Ideally, this would include detailed data on individual small-community, largely farm, group needs; individual farms' needs; and problems with small irrigation system components. Up to now, there has been little effort to collect such information in advance of decisions to work in a particular area and on a particular reconstruction job. In the pressure to get activities underway and to learn from the experience, this has not been a serious handicap. However, for future planning, a more formalized data collection and information management system needs to be put in place.

The recently commissioned University of Nebraska at Omaha (UNO) subcontract for LANDSAT imagery in two pilot areas is expected to demonstrate the utility of this technology for obtaining useful micro and macro data. Based on the results, and before additional remote sensing work is commissioned, a better definition of data requirements and specifications is needed as well as a system for ground truthing (micro, site specific information collection) inside Afghanistan and an efficient means of communication between the Nebraska center and VITA/Peshawar.

For future planning, there is a need to define the magnitude of the problems the project is expected to address. For example, is the project expected to produce an impact measurable in terms of: (a) growth of GNP in agriculture; (b) a significant percentage increase in total food production; (c) self-sufficiency in food within three years; or (d) an increase in food supply sufficient to feed all refugees returning from Pakistan in the next three years. Once the magnitude of the

problem is defined, conceptually sound measures and approaches can be defined, and more adequate and relevant information-gathering systems can be developed. Planning could then proceed within the framework of total human, material and financial resources available.

An evaluation and monitoring system for project activities is in place and has recently been strengthened with the addition to VITA's staff of Dr. Riffat Sardar, who is responsible for formal monitoring. Project monitoring is built into individual project activities, such as karez reconstruction. This provides the basis for payment and for future activity planning. For the farm machinery distribution activity, monitoring is expected to provide the basis for choices in future machinery activities.

Operating within the concepts of testing, monitoring, evaluation, and rolling design, the project has been quite successful in implementing small-scale activities. Teams responsible for planning at this level also take on an information gathering role for appraisal, planning and implementation of small projects. Planning at this level functions very well under the prevailing circumstances.

The main weakness lies in definition of the magnitude of the problem to be addressed and the systematic collection of data upon which optimizing choices can be made and overall plans can be developed to ameliorate the problem.

B. Agriculture

The project is designed to assist the agricultural sector of Afghanistan, within selected geographic areas, to return to normalcy, by providing resources for increased agricultural productivity and to support the growth of institutional mechanisms to use the resources effectively. As noted earlier, the original concept of using the Agricultural Council and the AAP as an implementing mechanism did not work out. Subsequently, the Area Development Schemes were used as an institutional mechanism for agricultural activities as well as for rehabilitating infrastructure, such as irrigation systems and roads.

Historically, Afghan farmers have resisted government interventions and are skeptical of outsiders telling them how to farm. They are much more receptive to the opportunity to have access to a piece of equipment or to one-time community services, such as cleaning or rehabilitating karezes, which have little threat of continued government involvement. Partly for these reasons, the agriculture portion of ADS activities has been less impressive than have the rural works activities.

Even so, there have been accomplishments. Informal surveys within the Area Development Schemes have identified the types of inputs considered by farmers to be essential to rehabilitate agricultural production. Equipment and draft animals provided by the project have demonstrated and introduced improved technologies, and helped communities to resume more productive activities. The experience has helped project managers and implementors to define possible future activities better. For example, certain types of threshers which were introduced on a small scale turned out to be inappropriate, while others worked quite well and demand for them is now being filled through the commercial channels sub-component.

Table 1 shows the kinds and numbers of machinery and oxen which have been directly provided through the Area Development Scheme subcomponent of the project.

Table 1: Inputs Provided through the ADS Subcomponent

Item	Number
Tractors	15
Ploughs	14
Scraper blades	14
Tillers	14
Reapers	8
Small threshers	21
Large threshers	1
Motorcycles	20
Poinjar drills	14
Bullocks	496

Some 30 tractor drivers and thresher operators were trained (by the equipment suppliers) to accompany the equipment. The equipment has been rented to farmers in villages selected by shuras (local councils). The money earned from rental is used first to defray the cost of fuel and repairs and, if excess funds are generated through rental, the shuras are asked to make recommendations concerning use of these funds.

The demonstrational value derived through introducing improved technology in this manner is quite positive. Involvement of the shuras in the process is also a very important and positive development; among other functions, they often serve as a check on the local military commanders.

In summation, accomplishments to date under the agriculture sub-component have been satisfactory, given the short time-frame (approximately 16 months) in which it has been operating, and especially so since the Agricultural Council under auspices of the Alliance was not forthcoming.

C. Commercial and PVO Operations

1. Commercial Operations

VITA's Planning Office has been working with private-sector Afghan businessmen to encourage the sale of selected items of agricultural machinery inside Afghanistan. As of mid-October, 1988, the following items had been sent to Afghanistan for sale through commercial channels with a total value of approximately $1.5 million:

Item		Quantity
Wheat threshers		308
Pumps		1,581
with engines	1,164	
without engines	417	
Rice husking machines		152
Spare parts ($226,600)		

Since the Agricultural Council did not become functional, the project has relied increasingly on commercial channels to provide inputs and services to help rehabilitate agriculture.

Lack of information on the condition of fixed productive resources, and of the supply and appropriateness of alternative production inputs and services, has been a constraint on sound design and implementation of this and other agricultural activities. To alleviate this constraint, project personnel have devised a two-staged approach. The first stage involves introduction and testing of alternative types of production goods and services to determine their suitability and acceptability under conditions prevailing in different areas. While losses of some types of production resources have been heavy--e.g., livestock--considerable though not precisely known amounts of other production goods and services are currently available in many but probably not all farming communities, supplied by private initiative, and by the Kabul Government's and Soviet's efforts. This commercial, private-sector oriented activity can particularly address shortages created by the war which has destroyed large numbers of draft animals and tillage implements, reduced labor supplies, resulted in deterioration in the quantities and qualities of high yielding seed, and resulted in land going untilled and hence becoming difficult to farm. Failure to till crop land has resulted in growth of annual and perennial weeds and shrubs. This makes it difficult to plow crop land with hand labor and light animal tillage tools. The shortage of labor for tillage and harvesting exacerbates this situation, particularly during land preparation and grain harvest, when labor requirements normally peak. The supply of animal and/or tractor mechanization appeared essential to replace lost draft animals and, in the case of associated tillage

equipment, to compensate for the decline in the labor force available to carry out labor-intensive operations, especially harvesting and threshing as it was done in the past.

The situation with respect to grain seeds (mainly wheat), other planting materials (including fruit trees), fertilizer, pesticides and pesticide application equipment was less clear, but generally believed to be a less serious problem. It is generally accepted that the long period since introduction and replacement of wheat seed inevitably has resulted in a substantial decline in grain seed quality. This deterioration probably has been accelerated by lack of care in monitoring of fields from which farmers saved seed, from mixing of seed and losses of seed supplies due to military operations. Many orchards have deteriorated due to lack of regular maintenance, and the inability to replace older and diseased trees on a normal schedule. Some orchards have been destroyed by Soviet or regime troups, and some have died because of the destruction of irrigation systems.

Urea fertilizer has continued to be produced at the Mazar-i-Sharif plant at a rate of about 120,000 MT/year, which is considerably in excess of original-design capacity. The local production of fertilizer has been supplemented by imports, mainly from Eastern Europe, of additional fertilizer, including phosphates. Some pesticides also have been imported and distributed. However, the extent of distribution and the availability in the main war-affected areas is not known by ASSP project managers.

Tractors and sprayers have been imported mainly from Eastern Europe and sold to farmers in Afghanistan. Numbers, quality and purchasers are not known by project personnel, but both quality and quantity are generally believed to be far short of needs. Estimates have been made on losses and current supply of oxen and other animals, though the degree of accuracy of these estimates is not known. Clearly, the situation on animal losses is serious. In 1978, before the war began, there were an estimated 3.5 million cattle, a million other large domestic animals (donkeys, camels, horses, etc.), and 20 million domestic sheep and goats. Out of the 3.5 million cattle, approximately 2 million (1 million pair) were used for draft. They provided by far the major source of draft power for tilling the approximately 3.8 million hectares of crop land. (In 1978, an estimated 3.3 million hectares were planted in grain crops.) Tractor numbers were very small and other large domestic animals (donkeys, camels and horses) were used mainly for transport. Available data indicate that approximately half of the two million oxen used for draft power were destroyed. Sometimes this has been a deliberate economic war policy of the Soviets and the Kabul regime, and by contact with land mines. Large numbers of sheep and goats also were lost due to military action directly, including mines and

interruption of normal grazing and other animal husbandry operations. Sheep and goat losses, while representing a major economic cost, present a less serious problem for agricultural recovery than loss of draft oxen, especially for crop farmers. The logical remedy would be large scale replacement of draft oxen and equipment, but this is very expensive and it is logistically difficult to obtain sufficient numbers of suitable types of draft animals, and to transport and distribute the large numbers needed. Increased tractor mechanization is being tried under the project as a partial alternative. One tractor with suitable implements can replace 20 to 30 pairs of oxen. Gasoline and diesel fuel apparently have been available in adequate quantities in Afghanistan. However, the economic and technical feasibility and acceptability to farmers of this tractor mechanization approach was not known. There has been considerable uncertainty also about the feasibility and suitability of alternative supply and distribution arrangements for tractors, oxen, and other tools and implements.

To avoid major mistakes, a program of supplying production inputs and services was initiated first on a pilot basis under the Area Development Schemes; the project supplies and operates the mechanical equipment and maintains title. The project's program which subsidizes private-sector commercial channels for supply and distribution of equipment has run in parallel with the ADS testing of eqipment. The commercial channels sub-component works with established businessmen who own or have linkages with existing distribution networks in Afghanistan.

The pilot program, generally operated in selected communities under the guidance of local shuras, has included:

- Tractors: 15 model 240 Massey Ferguson tractors (each equipped with a mouldboard plow, nine-tined cultivator, and scraper blade) have been distributed for trial under guidance of the shuras. The project has supplied trained drivers and mechanics with each.

- Threshers: One large thresher, powered by tractor, and 21 small threshers powered by an accompanying small engine, have been supplied to communities on a pilot basis for trial.

- Oxen: 496 head of oxen have been supplied under the pilot Area Development Scheme. The conclusion was reached that necessary oxen implements could be located or produced locally mainly from wood and small amounts of steel. Hence, implements were not provided with oxen.

Most of the oxen were distributed gratis through the mechanism of the shuras. Approximately 50 head were auctioned off in an experiment to test the feasibility of this distribution

mechanism. Based on initial reports, it appears that auctioning is a serviceable mechanism and future distribution should generally move in this direction.

Services of the tractors and threshers were to be shared by farmers on a community basis. That is, services were made available on a custom-hire basis to individual farmers, with costs of operation assessed and collected from users.

Much less uncertainty has been associated with the supply of annual production inputs such as seed and fertilizer. Thus, the introduction and testing on a pilot basis under ADS was not considered a prerequisite. Some improved seed packages composed of 7 kg of improved wheat seed and fertilizer have been prepared for distribution to individual farmers on a grant basis.

The results of trials with tractors and threshers were sufficiently encouraging to justify and provide direction for a larger commercial operation, functioning mainly through the private sector. The pilot operation indicated that farmers were willing to pay for custom services of tractors and threshers. The tractor and associated implements were found to be technically suitable and acceptable to farmers. Alternative implements, e.g., a disc harrow instead of a nine-tined cultivator, might have been provided but choices were limited by types available in Pakistan. Of the various types of threshers provided, the very small thresher equipped with small motors proved unsatisfactory. (This was based on models of larger threshers, which were scaled down and redesigned under the project. This design proved to be unsatisfactory and must be improved substantially or discontinued.) Larger tractor-powered thresher models, which were already being widely used in Pakistan, were accepted. Reapers introduced to reduce labor in cutting wheat have had mixed results. Some farmers complain that they cut grain too high and waste bhooza (chopped straw used for livestock feed) and were not suited to small narrow plots often encountered in Afghanistan.

The program has moved ahead with the Model 240 Massey Ferguson tractor and the associated package of implements, and the large tractor-powered thresher being distributed through private dealers. Private sector supply and distribution of oxen has not yet developed. although the mechanism of the auction appears to be a step in this direction. The private sector is expected to supply and distribute other production inputs and equipment--improved wheat seed, fertilizer, pesticides, sprayers, and small water pumps. Simple tools and oxen drawn implements (plows, harrows, spades, hoes, etc.) can be made by craftsmen already in Afghanistan. However, some assistance with machine tools and raw materials may be needed, especially by returning refugees who wish to go into the business of manufacture and repair of such equipment and tools. Some assistance may also be

needed in providing spare parts.

Private sector supply of production equipment and supplies currently follows two separate sets of procedures. Tractors, for which the existing Government in Kabul maintains a monopoly and hence for which private involvement is illegal, are in effect smuggled into Afghanistan by private dealers. Other Equipment, for which no such monopoly and hence no Kabul Government prohibition exists, is usually imported following prescribed Kabul Government procedures. Import requests with required documents are formally submitted and authorization is obtained from Kabul. Documents are presented at the existing Government border posts. Duties are paid as required. (The post at Torkham has been allowed to operate in the midst of a Mujahideen controlled area for the convenience of all parties concerned). The legally sanctioned goods are distributed to rural areas through legally established and Government recognized private dealer networks. Most of the agricultural machinery legally imported is sold in the Kabul market, which is essentially the only established central marketplace for such machinery at this time. However, it does not pass through Government hands in Kabul and pays no taxes beyond initial import duties. This procedure provides these goods with the advantage of fully recognized legitimacy and hence some protection from seizure. Tractors and related equipment which cannot be legally imported are smuggled in and distributed to areas that are under secure control of the Mujahideen.

Results to date indicate that tractors and related implements and other equipment are readily accepted, and that substantial numbers of farmers have the financial resources and/or banking contacts to finance importation of even large scale equipment such as tractor and implement packages. Also, many are able to arrange payment in Pakistani rupees, even at the current unofficial rate for the Afghani, which is about one-third the official value.

Many Afghan farmers with access to resources to buy tractors and equipment are deterred by the bureaucratic requirements, uncertainties and difficulties in coming to showrooms of Pakistani distributors to buy, and arrange shipment and export from Pakistan of the equipment. One solution would be establishment of warehouses, near the two border crossing points in NWFP and Baluchistan, where Afghan farmers could buy and pick up equipment with minimal bureaucratic requirements, e.g., the equipment would already have cleared all Pakistani requirements and be available for immediate shipment or on-site pick-up by Afghan farmers.

The amount of equipment and supplies provided under this and other components of the project has not yet been sufficient to make a substantial impact on total production. However, it has

been sufficient to accomplish three very important intermediate objectives:

1. Lists of equipment and supplies which are acceptable to Afghan farmers and farm groups have been identified, tested and proven.

2. The feasibility of use of private channels for distribution of essential production goods and services has been tested and proven. The proven willingness of private owners of tractors and other large equipment to provide custom hire services for other farmers in the community and willingness of farmers to hire and pay for such services are very important considerations in decisions on future expansion of this approach.

3. Finally, some contacts and business relationships have been developed and project assistance has been accepted by private sector Afghan businessmen.

These accomplishments will be critically important in future expansion of this activity. The experience also appears to have proved that with minimal logistical and technical assistance support, the private sector can successfully implement a major part of an agricultural development program and play a key role in the supply of equipment and services essential for resettlement of large numbers of refugees. This approach, if properly designed and supported, would be low-profile and require little direct U.S. management.

2. Private Voluntary Organizations

The AAM indicates that VITA will work with PVOs; details were not specified. During the summer of 1987, VITA began working with two PVOs which were then working in Afghanistan: the Swedish Committee and British-sponsored Afghanaid. Subsequently, they began working with the Austrian Relief Committee, the Dutch Committee, CARE/International, the American branch of Save-the-Children and, to a lesser extent, the Norwegian Committee. Page 33 presents a discussion of the types of interaction that have been involved in these relationships.

D. Rural Works

The Rural Works Division became operational in the summer of 1987 under the leadership of Engineer Mir Mohammad Sediq, with a small nucleus staff. As of mid-November 1988, the staff had increased to about 200, of which about one-fourth were in Peshawar. Twelve teams were working cross-border in 16 provinces of Afghanistan. Among the organizations operating out of Peshawar, this is by far the largest such effort, being several

times more than the total of the others combined.

Up to now, rural works activities have been centered in areas freed from Soviet and Central Government control and generally within the two most easterly tiers of provinces, from where most of the refugees in Pakistan come. These areas have received emphasis for two reasons: security and ease of access from Pakistan.

Rural works activities under the project have been limited essentially to rehabilitating village roads and small-scale irrigation systems, mostly karezes.

No attempt is made under the project to address other types of public works activities, such as restoration of homes, farm buildings, schools and public buildings or electrification. Project implementors felt that village access roads and provision of irrigation water were the imperatives to rehabilitating agricultural production. The assessment team agrees with that conclusion.

In assessing the project's rural works sub-component, a comparison with USAID-assisted pre-war rural development activities is useful. The Rural Works Department was organized by the Government of Afghanistan in the 1960s to carry out small-scale engineering works. USAID became involved in supporting the program in 1972. Outputs scheduled for the first two years of Phase I (1975-77) included 80 water control structures irrigating an average of 375 acres each, 26 stone and concrete bridges with an average cost of $14,000, and 100 kms of farm-to-market gravel roads. Later, the output goals for the project were reduced. In March, 1976, scheduled outputs and the results achieved were:

	Goals	Completed
Water Control Structures	14	8
Bridges	8	3
Roads (km)	15	0

These figures are well below the range of accomplishments during the first year under the ASSP project. As of mid-November, 1988, about 200 km of roads were improved or rehabilitated and about 500 karezes were rehabilitated.

E. Other Activities

1. Data Collection and Analysis

Information has been very scarce on destruction and loss of use of infrastructure (surface and karez irrigation, roads, bridges, public buildings, industry and of forest and crop land

due to military operations, and deterioration from lack of maintenance and disuse. Uncertainty about conditions of irrigation infrastructure and current use of land (e.g., amount cropped) is a particularly serious handicap in planning and implementing agricultural activities. Several measures have been taken to provide more reliable and up-to-date information with adequate area of coverage for rehabilitation planning and implementation. These include:

1. Field teams of the rural works and agricultural rehabilitation activities assemble information about ongoing and proposed activities from on-site field observations and discussions with local residents and area commanders. These observations are very limited in area and subject to personal bias.

2. A special survey conducted under the auspices of the Swedish Committee (funded principally by A.I.D.) attempted to collect data on losses, including damage to infrastructure and fixed and other agricultural resources, and on status of agricultural production for major parts of the country. The Swedish Committee assembled and analyzed a large volume of data which is invaluable, especially at a macro level, in appraising damage, current productivity and likely costs of reconstruction. A principal problem is that the data collection techniques employed do not provide the kinds or levels of data required for location specific farm and community level rehabilitation planning and implementation. The data also lack detail and area specificity to provide ground truthing for interpretation of satellite imagery.

3. VITA, with Mission approval, subcontracted with the University of Nebraska to carry out a pilot study on the potential for use of LANDSAT (satellite) imagery to identify and assess damage to infrastructure, including irrigation systems (surface systems and karezes, etc.), roads, bridges, and buildings, and to estimate the extent of use of agricultural land especially for crop production.

The assessment team met in Washington, D.C. with Dr. John Shroder of the University of Nebraska, the principal investigator, who has several years of earlier experience in survey and mapping work in Afghanistan. Dr. Shroder briefed the team in detail on results of his work under the VITA subcontract. This included a presentation and review of imagery on the two pilot areas included in the study. Several conclusions emerged. Despite collection of LANDSAT imagery in August--a period not ideally suited to interpretation--a large amount of information can be obtained on damage to infrastructure and current land use by comparison with pre-1978 imagery covering the same areas. For example, careful interpretation and comparison with earlier imagery would permit identification of many, but all, karezes and

other irrigation systems not functioning or functioning at reduced levels compared with earlier periods. In some cases, it also permits identification of inoperative drainage systems and other damage due to military action or lack of maintenance. It also permits identification of some impaired bridges and other infrastructure. Better timing of imagery collection would permit much more accurate interpretation of the current situation especially with respect to cropping and other land use. Illustratively, imagery collected at normal maximum wheat crop growth (just prior to turning color) and again at full maturity would permit a high level of accuracy in estimation of areas planted to grain and ready for harvest. It would permit differentiation with respect to areas in range, forage and waterlogged areas not in cultivation. Comparison with earlier imagery would permit identification and measurement of changes in patterns of land use. This in turn would permit assessment of damage to irrigation systems and changes in land used for crop production, community by community. Subsequent collection and interpretation of imagery could be used as a reliable, non-biased, check on results of reconstruction activities, e.g., karezes put back into operation for those which had been totally out of order (it could not detect, for instance, a 20 percent increase in flow of water due to cleaning or rehabilitation).

Close coordination between work done at the University of Nebraska and field operations, particularly collection of ground truth by field teams in Afghanistan, is necessary to reap the results potentially available. In mid-November, 1988, O/AID/Rep arranged for Dr. Srhoder to come to Pakistan to meet with project personnel and the evaluation/redesign team to discuss potential use of satellite information, and work out details on steps to achieve maximum possible results from the current pilot operation.

Ideally, a commitment should be made by February, 1989 and arrangements made to initiate a program by April 1, 1989 to cover the target areas for the ASSP's rehabilitation teams. This should include arrangements to obtain multispectral coverage of the enlarged area twice during the May-July period (after wheat has changed color, but before harvest). This program should provide for close working relationships and frequent visits by the University of Nebraska team to Peshawar and periodic visits by involved Afghan professionals to the University of Nebraska. The interpretation work should be concentrated at the University of Nebraska.

The results of such interpretation efforts could be valuable to parties involved in resettlement and rehabilitation. The information should be shared with other donors to assist them in planning and implementation of activities they will support, and to improve donor coordination. This might include assistance to the IFAD-funded team undertaking study and development of

reconstruction and resettlement programs for Afghan refugees from Iran.

The following information from Dr. Shroder covering a section of the Helmand Valley is indicative of the potential of LANDSAT.

"The changes between pre-war and now are as follows:

- The Marja area has greatly deficient agriculture. Much of it seems to be out of cultivation, perhaps through salinization and waterlogging.
- Nad-i-Ali seems to be intensively cropped and shows few problems, except at the south end.
- The area of Kareze Saydi between Nad-i-Ali and Marja is in new production.
- The area between the Shalaman Canal and Lashkargah, and between the confluence of the Helmand and Arghandab Rivers looks healthy.
- South of Lashkargah things do not look so good, except around Hazaras, as you can see.
- South from the Marja drain by the Helmand there is virtually nothing, even though I see a lot of villages on the map. The imagery shows abandoned fields."

2. VOA Broadcasts Concerning Agriculture

VOA radio broadcasts produced by VITA are aimed at farmers within Afghanistan and deal with general problems encountered by farmers there. While no specific listener surveys have been conducted, the programs appear to be well received by farmers. Presently, the amount of time VOA offers these programs is limited to approximately eight minutes about once a month. This seems inadequate.

3. Horticultural Nurseries

Before the war, Afghanistan was known for its superior fruits. Both local consumption and exports were high. Direct events of the war and neglect have damaged at least 10 to 15 percent of the orchards and vineyards. In some areas, the damage is near 100 percent.

Widespread reestablishement of orchards and vineyards will be a long-term undertaking and, as such, should not receive a major emphasis in this project. However, the selection, testing and production of root-stock and planting materials, and introducing these in selected areas of Afghanistan will accelerate the rehabilitation of fruit production. Thus, it is appropriate to devote a small amount of resources to nurseries, and to testing and demonstration in selected areas of Afghanistan in which fruit is important.

Two small nurseries have been started in Pakistan (Peshawar and Swat) under the project for root-stock production, varietal introduction and for eventual budding. It is planned that materials will be moved to Afghanistan at an appropriate stage of development of the stock. This approach is endorsed by the assessment team.

IV. ISSUES AND CONCLUSIONS

A. Team

1. Is the technical assistance team effective?

In most respects, the technical assistance team that VITA has assembled is quite effective. The team leader provides strengths by virtue of having a keen sense of the political realities in rural Afghanistan, from having had considerable experience in rural development in other developing countries as well as in Afghanistan, and from being a savvy and articulate planner and leader. The team started out with the benefit of having on the permanent staff a former senior Afghanistan government official (Minister of Agriculture and other high-level positions) who provides a policy-level dimension to project planning and implementation. Subsequently, VITA was able to attract to its staff the pre-war President of Afghanistan's Rural Works Department, a person who is an extremely effective director and implementor of programs. The total team has grown rapidly especially in more-recent months, and is generally effective. The least effective aspect of the team is in strategizing and implementing purely agricultural programs. With respect to infrastructure activities, implementation appears to be strong but, to date, emphasis has been mostly on karez repair. The approach lacks a clearly articulated strategy, or framework, for rehabilitating irrigation systems and rural roads.

2. Are there sufficient numbers of personnel with appropriate backgrounds to meet project objectives?

Senior staff on the VITA/Peshawar team include:

Expatriate:	
Executive Director	1
Chief Financial Officer	1
Program Officer (consultant)	1
Pakistani:	
Monitoring/Evaluation Officer	1
Afghan:	
Chief Technical Advisor	1
Director, Rural Development	1
Total	6

The Program Officer (consultant) is assisting on a short-term basis with designing and defining agricultural assistance activities. This should be made a full-time, permanent position. In addition, a qualified deputy to the Director, Rural Development Division, should be added.

Except for a deputy, there are ample numbers of Afghan staff available to VITA's Rural Works Division, both technical and professional, although the level of skills for most of the staff is less than fully adequate. Between 20 September and 23 October, 1988, the staff increased by 20, or 17 percent. While there are several engineers on the staff, few of them have had extensive training and background in irrigation engineering. Such training is not necessarily needed for work on karezes, but it will be for work on surface-irrigation systems.

The number of field staff in agriculture is adequate, although some shift in specialties and qualifications is needed. At least one agricultural specialist at a senior level is needed on each team to supervise testing and demonstrations, to work with key farmers on seed multiplication, and in general to assure that the scope of activities laid out by the Peshawar planning team is carried out.

3. Should there be changes in the numbers and mix of skills?

VITA added an expatriate agricultural consultant on a short-term contract in mid-1988 in an effort to add depth in conceptualizing activities and strategizing in agriculture. There remains a deficiency in the ability to implement agricultural, as opposed to area development, activities in the field.

4. Is the team organized in the most effective manner to implement the project's field activities?

The field teams have gone through a recent reorganization. While not all ADSs are fully staffed, the staffing pattern calls for fourteen persons on each team, including an area development officer, seven who are associated with rural works, and six agriculturists, agricultural equipment operators and mechanics (generally, two agriculturists and four equipment-related persons.) The organizational structure may need to be adjusted in order for the teams to implement the more sharply focused scope of work that is being recommended, especially for the agriculture portion of the teams. As a minimum, a more senior agricultural person needs to be appointed on each team.

Overall staffing for agricultural programs reflects the dearth of professional Afghan agriculturists available. Few agricultural professionals have been located or have come forward seeking employment. The pool from which to select is small. This was true in Afghanistan even prior to the conflict. Many of the more senior experienced persons who left Afghanistan have sought and accepted employment in other areas of the world. Many of those who remain in Afghanistan are junior personnel with limited technical training and experience. Personnel constraints in agriculture will remain. The recommended solution, for the ASSP project, is to mount an in-service training program for the agriculture field staff so that they can carry out the specific objectives of the project as defined in the amended ASSP. The field staff is currently weighted toward the operation of equipment, i.e., tractor drivers and thresher operators.

5. Should Tracks I, II and III continue to be in the same project and/or implemented by the same contractor?

A great deal of potential complementarity exists between agricultural and rural works activities in the Area Development Schemes. This augurs well for field activities of Tracks I and III to be implemented as an integral set of activities by one contractor. The PVO portion of Tract II should also remain in that set, since most of those activities are cross-border and related to the area development schemes. The Track II commercial-channels program needs to be expanded substantially and implemented in a full-fledged private-sector oriented manner, involving Pakistani agribusinesses, and Afghan traders and merchants on a large scale. VITA is not equiped to manage this kind of an effort in addition to the area development schemes. Therefore, a new contractor with the requisite personnel and experience should be sought. Close coordination between this program and the field activities will be important. The proposed structure for implementing an expanded private-sector commercial channels program is discussed more thoroughly in the amended ASSP.

B. Systems

Are VITA's accountability and record keeping systems adequate?

Because the VITA field office in Peshawar operates a trans-border assistance program, VITA's contract allows for special accounting provisions. The field office follows normal accounting proceedures; it documents the end use receipts for all goods and services within Pakistan. By special contract provision, VITA is exempt from normal accounting proceedures for end-use of items within Afghanistan and costs incurred there. The procedures and staff in the [illegible]

costs and materials up to the border. Tracking the use of the resources beyond this point is the function of the monitoring program (see section H).

The VITA/Virginia home office is responsible for releasing funds to the field office by a Federal Reserve letter of credit. Through the period of the contract, there have been problems with the timely transfer of funds to the field office, which have created temporary cash flow problems and, at times, slowed activities. VITA/Virginia has recently reorganized its accounting office in an effort to correct these difficulties.

C. Operating Functions

1. If field activities take on operating functions which are normally those of a government agency, how will this affect relationships with VITA and A.I.D.?

VITA's responsibility for cross-border rural works and agricultural rehabilitation within Afghanistan forces it to take on functions that would normally be filled by a host government agency. It accepts requests for work, decides on where in Afghanistan rural works and agricultural development schemes should be located, employs Afghan staff for planning and implementation, and helps to create village and regional level organizations to decide on appropriate distribution of goods and priority of work within project areas.

The fact that VITA has taken on, quite effectively, some functions normally carried out by government agencies need not in any way affect VITA's relationship with A.I.D. As a contractor to A.I.D., VITA should continue to get its policy guidance and technical direction from AID/Rep.

2. Should the (ADS) operating arm be spun off, say as an independent foundation which could accept assistance from a variety of sources?

The Rural Works Division, which implements the ADS program, has the potential to become autonomous. It employs a large Afghan staff and has become an institution with important potential for the post-war reconstruction effort. As an organization with an Afghan character, it has attracted the attention of many agencies ranging from foreign PVOs, whose planning abilities are rudimentary, to the United Nations, which will need to rely more heavily on Afghans as it begins working within the country. Allowing Rural Works to assume a more international role in meeting its program goals, with funding from a variety of sources, could accomplish more than the budget currently permits. It would also mean that [illegible]

reduction in the level of U.S. funding, program commitments could still be met.

While developing such autonomy is seen as desirable, the structure of a foundation may not be the best way to proceed. foundation would take time to set up and approve, and the structure it takes in planning may eventually be rendered inappropriate by changing events within Afghanistan. Nor is it clear what the goals of such a foundation would be, beyond acting as a conduit of funds to the Rural Works Divison, whose engineering functions would likely be prescribed by a national government under normal conditions. Finally, the case would need to be made that a new foundation structure with an untested staff would improve the effectiveness of the current program more than could be obtained by readjusting its current relationship as an AID/Rep contractor. Planning for the future of the Rural Works Division should consider the need to integrate efforts with those of other international agencies that will also be involved with Afghanistan's resettlement, rehabilitation and reconstruction.

There appear to be three alternatives to a foundation, within which a Rural Works program could proceed.

(a) Rural Works could remain part of the VITA organization but expand its base by taking funds from other agencies and planning cooperative ventures with them. This would also allow A.I.D. to participate in multilateral programs with an organization it had set up and which meets its standards for accountability and accomplishment. While organizations perceived as bilateral may fall on hard times as relationships between their respective governments change, multinational programs may be less vulnerable. As a contactor to AID/Rep, VITA's Rural Works activities could remain primarily, or at least partly, funded by A.I.D.

(b) The Rural Works program could be incorporated as a unit within a larger United Nations program. As the UN takes a greater role in organizing rehabilitation and reconstruction within Afghanistan, it may be more feasible for Rural Works to be part of a multilateral program if its wishes to expand its role by taking on larger engineering projects.

(c) The Rural Works program could become part of a ministry within a new Afghan government. As the political situation changes and a new government emerges in Kabul it will likely seek out Afghan-staffed programs like Rural Works with ties to the resistance as a way to begin its own national program of redevelopment. If this occurs, the Rural Works program will disappear as a donor-supported program but its staff and duties would continue and perhaps expand as a governmental agency

3. Are relationships between VITA, and the Afghan and Pakistani organizations satisfactory? Are changes needed?

Relationships between VITA and GOP agencies appear to be very good, with coordination and lines of communication satisfactory. In dealing with the Afghan party organizations, VITA has recruited people with an eye to maintaining a balance between factions without tying itself formally to any single party or to the vageries of the seven-party Alliance leadership. Inside Afghanistan, VITA has helped create local level shuras, or councils, that represent the range of leadership within the community or district. Under the assumption that the political situation in Afghanistan could become increasingly fluid over the coming months, VITA has positioned itself well to operate in an uncertain environment with the variety of parties or other leaders that may emerge.

D. Role of PVOs

1. Is the nature of VITA's role in this project such that a PVO (VITA or any other) faces institutional and attitudinal constraints in carrying out its contractual responsibilities effectively?

VITA's Afghan projects and the number of employees (nearly 200 as of mid-November 1988) have grown considerably over the past 18 months. A strength of the organization lies in the the quality of its senior planning staff in Peshawar, including two former senior Afghan officials who have facilitated the creation and growth of the organization. In the process, VITA has taken on some operating functions normally associated with those of a government agency.

Largely because of the flexibility that was purposely built into the project, and partly because of VITA'S management style (sometimes taking the character of a PVO, though they are a contractor in this project) VITA has tended to be "experimental" at times. It is entirely possible, perhaps even likely, that they were able by using this "style" to accomplish as much as they have in a relatively short time. At this stage of the project, though, with the foothold that has been made in establishing cross-border operations, the operating mode needs to take on more of the character of a contract. This may be easier for the overseas staff than for VITA as an institution. (Files of correspondence from the home office to the field, in describing the collaboration with PVOs, often refer to the latter as "other PVOs.")

2. Should this project be implemented by a private consulting firm or organization rather than by a PVO

PVOs by their nature are mission oriented, carrying out humanitarian projects that meet the goals of their organization. With this mission orientation, they have taken the lead in many aspects of refugee relief in Pakistan and war relief inside Afghanistan. However, when a PVO moves from accepting grants for carrying out a project which it has proposed and developed, to accepting contracts for work which some other agency has defined and will evaluate, different criteria come into play. In a grant situation, PVOs are able to mobilize energy and enthusiasm that make them quite effective in dealing with specific problems, because they are meeting their own goals as well as the donor's, with the help of other people's money. In a contract situation with a multiplicity of goals, some of which have political and economic purposes outside the scope of a PVO's charter, strong moral commitment is less important than a strong base of administrative skills and a proven track record of project accomplishment.

Having said that, the VITA field office at this stage of project implementation has a comparative advantage, especially in implementation of the Area Development Schemes, that needs to be expolited. Implementation by a private consulting firm of that portion, in particular, is not recommended at this time.

3. Assuming a PVO is appropriate and capable of implementing this project, should VITA continue to be the contractor?

VITA should continue to be the contractor for the Area Development Schemes (renamed Agricultural Rehabilitation Schemes in the amended ASSP) and for rural works activities outside ADS' and for liaison with PVOs working inside Afghanistan, at least until their current contract expires in March, 1990. At the end of 1989, their performance should be reviewed again and alternatives weighed against the option of continuing VITA's contract.

4. Does VITA have the institutional capability to implement the project as it may be changed and/or expanded?

VITA's strengths are in the existence of the beginnings of a strong staff and organizational structure in Peshawar, and a viable structure for carrying out cross-border activities. In this sense, it appears that VITA may be able to develop the institutional capability to implement the redesigned agricultural rehabilitation schemes. VITA does not have the capability in Peshawar to implement a substantially expanded private-sector agricultural input sales operation More to the point, VITA/Virginia has virtually no institutional capability to backstop or implement such an expanded program

E. Organizations

1. What progress has been made in creating effective Afghan organizations to provide assistance to the agriculture sector?

Considerable time (about 12 months) and effort were expended during the design and initial implementation phases of the project to enlist participation of the Agriculture Council of the seven party Alliance in planning and implementing the Area Development Schemes. That effort was finally abandoned. However, two other organizational developments occurred later in the project life which may prove to be more significant than the Agricultural Council: (a) the constitution of the Rural Works Division, which has the potential to become an Afghan entity at some point, and (b) assistance in the formation of shuras (local councils). Project activities have the potential for giving the shuras a reason for being, e.g., to represent community interests in the process of allocating resources and in programming rehabilitation efforts, and as a check on commanders.

2. What role, if any, might a resuscitated council have in future project activities?

While the potential usefulness of an agricultural council should not be dismissed out of hand, it is not at all clear at this juncture what role such a council might fruitfully play for the ASSP project.

3. What progress has been made in strengthening existing agricultural services in project areas? Which of these can and should the project try to develop or strengthen?

Virtually no agricultural services exist, except the state-run fertilizer and machinery operations. The project has helped to maintain, or strengthen, private sector capability to deliver selected items of agricultural inputs, most notably farm machinery. In fact, strengthening this kind of service--the capacity to distribute and sell to farmers the agricultural inputs necessary to restore productivity of farms--should be a primary emphasis of the project.

G. Training

1. Is satisfactory progress being made in training agricultural technicians and para-engineers under VITA auspices? Does the training program need to be broadened or expanded to meet needs for trained personnel?

A training program is carried out within the Rural Works Division. Completed, ongoing and presently planned training programs are indicated in Table 2. There is a definite need for additional in-service training of field staff, especially with the recent expansion in staff. To arrange training at Pakistani institutions, which is recommended by the assessment team, will be time consuming. Training programs which really fit project needs may not exist and will have to be developed. For example, to suit the needs of the Agricultural Rehabilitation Schemes, training may have to be tailor-made. VITA will likely need a full-time training officer to manage these functions.

Program focus has been largely oriented toward skill development at functional levels, such as tractor driving and thresher operation. To supplement this, more attention needs to be given to short-term training programs for agricultural personnel who are, or will be, responsible for data collection, analysis, program formulation, and implementation within an area. Also, technical specialists need to be hired for the Peshawar staff, and one of their duties should be to design training plans based on an assessment of training needs.

H. Monitoring.

1. Is the monitoring and evaluation unit appropriately organized and staffed?

Monitoring projects inside Afghanistan is the responsibility of ten field-staff observers who report on project progress and provide more general information about socio-economic conditions in Afghnistan. Of the seven monitors who review the commercial channels sub-component (Track II subsidy program), five live permanently in Afghanistan and provide reports. The other two travel from Pakistan as couriers and observers. For security reasons, the identity of all monitors is restricted to top members of VITA's staff, so that no VITA project team is aware of who is evaluating their work.

The evaluations take different forms. For the Area Development Schemes and Rural Works activities, technicians administering the projects are expected to provide detailed work summaries on the progress of projects. VITA staff indicate that the field activities in three project areas were inspected by an ad_hoc team consisting of one engineer and three technicians, in a trip lasting three months. The Chief of Party plans to add more monitors in the near future.

Monitoring of the commercial channels program involves checking the reliability of the end-use data supplied by Afghan merchants. These data consist of government documents showing

Table 2. Training Inventory

Type	By Whom	Where	Completed	Underway	Planned Next 6 Months
1. Course for tractor operators 40 people	Millat Tractor Supplier	Lahore	1988 May		
2. Workshop	Rural Works Division (RWD)	Peshawar	1988 May		Planned for Nov.88
3. Training course for Agriculture	"	Peshawar			Dec. 15 - Feb. 28, 88
4. Training course for Technicians	"	Peshawar		For RWD Technicians	Dec. 30-End Feb. 89
5. Training	"	Peshawar	1988 Jan.	For RWD Technicians	
6. On-the-Job training	"	P/Field	1988 Jan.	In Head-quarters and in the field	
7. Tractor Operator 20 people	Millat Tractor Supplier	Lahore			3 months duration start Dec.88
8. Area Development Officers	(10)	Peshawar			11/27-12/1/8
Deputies	(10)	Location to be determined			12/15-2/15/8
9. Agr. Extension	(20)	Location to be determined			12/31-2/28/8
10 Rural Works Division Technicians	(20)	Location to be determined			12/31-2/28/8

the delivery of specified equipment into Afghanistan and the end-use sale including name of buyer, address, date of sale, and price. Monitors check a sample of these individuals to determine if they actually received the specified goods at the recorded price.

In addition to the field monitoring, VITA has established an analysis unit in Peshawar consisting of a social scientist and two assistants. Their job is to collate the specific data from observer teams and, by extensive debriefing, to produce situation reports for each project area. This information is made available in Quarterly Monitoring Reports that itemize the information available for each project. Monitoring and evaluation file reports have been produced for most of the ADS project areas.

2. Is the system providing reliable information and analysis about quality and adequacy of inputs, and how they are distributed and used?

Given the constraints inherent in supervising a cross-border operation, VITA has set up an adequate monitoring program which has improved its reliability over time through the use of cross-checking reports. VITA expects to upgrade the quality and reliability of the reports in the future by implementing a training workshop for current monitors to produce more standardized reports and to encourage them to collect more detailed information about local conditions. There is also a proposal to involve expatriate monitors already in Afghanistan observing projects run by PVOs to take a look at neighboring VITA programs.

No attempt has yet been made to monitor the impact of inputs delivered or facilities reconstructed. The planning, monitoring, and evaluation section of the amended ASSP describes a plan for such monitoring.

I. General Project Activities

1. Are VOA radio broadcasts about agriculture effective, and should they continue under VITA or other auspices?

VOA radio broadcasts in Persian and Pashto about Afghan agriculture are produced by VITA and directed at farmers within Afghanistan. The topics covered are intended to be useful to a wide variety of farmers and include a considerable amount of useful technical information. While no specific listener surveys have been conducted, occasional reports to VITA's Peshawar office indicate that the programs have been well received. However, the amount of time VOA has made available for such programming is

3. Rural Works: Does the Rural Works Division have the right kind of equipment and supplies to carry out its tasks?

For the sorts of projects presently being undertaken by the Rural Works Division, only hand tools are necessary for the most part. Project staff has these in adequate supply, along with means for storing and securing them. Occasionally, on road projects, they have obtained the use of a farm tractor and trailer to haul stones for metalling the roads. In the future, some larger tools and equipment may be needed. However, a proper review should be made prior to any project funds being committed.

4. Concentration: Is the Rural Works Division spread out over too large an area to have significant impact?

Initially, the Rural Works Division operated generally in "areas of opportunity," defined to a large extent on the basis of security. As additional areas have become secure, the number of ADSs has been increased, with a geographic distribution that includes a spread within Afghanistan from north to south, including two ADSs north of the Hindu Kush. This spread offers the advantages of serving areas with different farming patterns and agricultural potential, and different ethnic groups. The results obtained from this spread are useful in planning future activities, and the spread is generally considered to be appropriate. When feasible, it would be better to move more teams into the north, where the bulk of the agricultural potential exists.

5. Is VITA effectively assisting PVOs in their rural assistance activities?

The AAM indicates that VITA will work with PVOs; details are not specified. Under direction of the Steering Committee, project staff have spent considerable time with several PVOs, both individually and collectively. VITA has worked on a one-to-one basis, for instance, with the Swedish Committee, Afghanaid, and the Austrian Relief Committee, to explain details of karez cleaning techniques and costs, or fertilizer requirements for various crops. VITA has also extended program development assistance to PVOs new to the area, who are interested in beginning cross-border work. This has included the Dutch Committee, CARE/International and the American branch of Save-the-Children. VITA helped CARE to prepare a proposal for possible USAID funding to establish more area development schemes to be implemented by CARE. VITA has helped Save-the-Children to start an area development scheme in one of the south-eastern provinces. They helped the Dutch Committee structure a program

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for training para-veterinarians, and nominated candidates for training under the program. It is planned that successful candidates of this program will be assigned to three of VITA's area development schemes, with technical support being provided by the Dutch Committee. VITA has helped Afghanaid to develop various strategy options for deploying resources inside. VITA also provided an engineer for an extended PVO needs assessment survey for the Panjshir, conducted jointly with the Swedish Committee and Afghanaid.

VITA has also participated in many group meetings with PVOs. Dr. Wakil, in particular, has spent considerable time in these fora, providing council from a policy perspective. More recently, these meetings have centered around the Agency Coordinating Body for Afghan Relief (ACBAR).

V. RECOMMENDATIONS

The proposed follow-on agricultural activities supported by the U.S. would build on the considerable and solid record of success achieved in a very short time under the current project. Major successful elements and approaches would be continued. The present project in the short time it has operated has developed a very successful cross-border Rural Works and Area Development Scheme programs. These activities have achieved notable progress in rehabilitation of infrastructure, especially karezes and roads, and successfully tested a list of farm equipment. They have achieved ready acceptance and gained stature for the program among Afghan communities, and developed a well organized and managed staff with a nucleus of trained people in 12 areas of Afghanistan. This has begun to strengthen indigenous local institutions and is addressing some real needs, albeit on a small scale.

A companion activity to the rural works and area development schemes is a small but highly successful experimental activity--called, commercial channels--that was developed to distribute agricultural equipment inside Afghanistan through the private sector.

Following is a summary of specific recommendations for the future:

1. The cross-border rural development and agricultural component should be continued and, as conditions permit, the number of teams should be increased from the existing 12 to about 15.

2. As security conditions permit, the locations of some of the teams should shift somewhat, as prescribed by the following criteria:

- Productivity: The most agriculturally productive areas should receive priority so that both infrastructure rehabilitation and testing, and demonstration of agricultural production technologies will help those areas to produce surplus agricultural commodities for deficit areas;

- Community Organizations: Those areas in which shuras or other local community organizations exist, or are likely to become functional, will be the most suitable locations for teams;

- National Balance: Program managers should seek to place teams in representative areas in territories of the main ethnic groups of Afghanistan; and

- Poppy Areas: Teams should not be located in areas in which it is known that poppies are grown, unless:

  -- the local community government (shuras and/or commanders) actively seeks assistance in reducing poppy production; and

  -- a reasonably attractive economic alternative is available.

3. The name of this set of activities should be changed from Area Development Schemes to the Agricultural Rehabilitation Schemes (ARS) component to portray more accurately the purpose and functions of the component.

4. The main objective of the ARS teams should be to solve problems that have arisen due to events of the war, namely:

- Damage to community-owned, small-scale irrigation schemes;

- Damage to rural roads and bridges;

- Loss of draft power due to approximately half of the pre-war numbers of oxen having been killed;

- Growth of grass, weeds and shrubs on land that has been left untilled for several years, making it very difficult to till with traditional tools and methods; and

- Deterioration of seed varieties and vegetative planting materials.

5. Enough flexibility should be included in this component so that in special cases, whether they be additional problems or potentially high pay-off opportunities, other activities can be carried out, with approval of project managers and O/AID/Rep.

6. To focus on those problems, each ARS team should be structured, under leadership of a team director, into two groups:

- One for infrastructure rehabilitation (irrigation systems, roads and bridges); and

- One for the testing and demonstration of agricultural production technology.

7. VITA should add a deputy to the Director of the Rural Works Division; add up to four more senior Afghans to the VITA/Peshawar staff; and strengthen sufficiently the agricultural field staff in the ARSs to perform the functions of testing and demonstration of agricultural production technology.

8. The commercial channels subcomponent should be re-defined as the Agricultural Input Sales (AIS) component, and should function as the mechanism for getting a substantially increased volume of critical agricultural inputs and supplies into Afghanistan from Pakistan. This activity should be conducted to the extent possible through private-sector traders, dealers and businesses, although non-market channels might be used in special situations.

9. A Monitoring and Analysis component should be created with the objective of strengthening the functions of planning, monitoring, evaluation, and analysis of project activities.

10. Because of the enlarged scope of the commercial channels, or AIS, component, and the specialized nature of this and the monitoring and analysis activities, a new contractor(s) with experience and competence in commodity import procedures, in private sector agribusiness management and in monitoring, evaluation and analysis should be selected to implement these two components.

AGRICULTURAL ASSESSMENT/REDESIGN TERMS OF REFERENCE

I. Background: On April 1, 1987, A.I.D. authorized the Agriculture Sector Support Project (306-0204) with a life of project cost of $6 million. The current Project Assistance Completion Date (PACD) is March 31, 1990. The Project purpose is two-fold: (1) to provide resources to support increased agricultural productivity in selected areas of Afghanistan and; (2) to support the growth of institutional mechanisms to use the resources provided under the Project.

II. Introduction:

In November, 1986, the office of the AID Representative for Afghanistan Affairs (AID/Rep) issued a grant to Volunteers In Technical Assistance (VITA) to design a project for assisting the agriculture sector of Afghanistan. The grant also authorized VITA to initiate steps leading towards project implementation. By the time the Activity Approval Memorandum (AAM - the Afghan program equivalent of a project paper) was approved and the Project authorized on April 1, 1987, considerable progress had already been made in recruiting staff, and planning for project start-up.

In recognition of the uncertainties in the political, security and economic environment within Afghanistan, the Project adopted a flexible strategy to make adjustments in activities as the situation might require - i.e., a rolling design strategy. The Project was designed in two phases. During phase I (the first year), emphasis was on identifying priority target areas to receive assistance, surveying the needs of the selected areas, and supplying appropriate equipment, supplies and technical assistance (TA) to those areas. Phase II (years 2 and 3), based on the experience of the first phase and the evolving political situation, would expand project activities to more areas within Afghanistan.

As originally designed, implementation would follow a two track strategy. Track I would operate under the direct guidance of the Agricultural Council, a body already in existence, consisting of representatives from each of the seven political parties in the Islamic Unity of the Afghan Mujahideen (the Alliance). The Agriculture Council of the Afghan Alliance was to provide policy guidance to the Afghan Agriculture Project (AAP). The AAP was to be an Afghan entity created to implement Track I activities in Afghanistan

under the direct policy guidance from the Council. Neither the Council nor the AAP became meaningfully functional, thus necessitating that the Contractor work with and through the political parties and local commanders to implement the agriculture program.

(Track I was intended to be the institution-building element of the Project. It was to develop an organizational structure and train a staff of Afghan nationals, mainly as agricultural extension agents.)

Track II was to work outside the direct guidance of the council receiving its policy guidance from a steering committee composed of representatives from the Mission, the Government of Pakistan, and VITA. This activity (which is implemented by one individual assigned to the VITA staff) subsidizes the sale of farm equipment on a selective basis in Afghan markets.

The VITA contract was amended in November, 1987 to include a third Track focussed on reconstruction and development of rural infrastructure such as roads, trails, and irrigation schemes (agricultural development activities have also been recently added). The former President of the Rural Development Department in Afghanistan was recruited to be the Director of the Rural Works Division (RWD). RWD has recruited and deployed field staff in Afghanistan with staff members residing in ten provinces and working in sixteen. While RWD was designed to operate outside the direct control of the Alliance and the Council, it has developed close working relations with the existing leadership in selected areas in Afghanistan and maintained close liaison with the political parties. RWD now has a staff of 55 people, many of them engineers and technicians recruited from the old Rural Development Department.

Over the last few months, VITA has consolidated Project activities around the field staff of RWD. Shuras (councils) are forming in many areas where development schemes are being undertaken. These shuras provide opportunities for the Project to use and strengthen grass-roots local civil administration. Both Track III and the emerging shuras support creation of important institutional mechanisms for rural development. With agricultural staff working alongside existing RWD staff in ten area development schemes, an operational framework is being created wherein the agricultural staff originally planned to be Track I personnel (such as extentionists) can be used effectively. They work under the supervision of the senior provincial engineer and are supported by administrative staff of RWD and the VITA

planning unit in Peshawar. An area development officer has been appointed to work under the director of RWD to supervise agricultural programs in the field.

The Track I program has been incorporated into the area development schemes of Track III. Rural works and area development field activities, working with and through existing local organizations, are now providing the only channel of services to farmers that would normally be provided by Government agencies. They are developing institutional arrangements that, in fact, may become the Government Service Agency.

III. Objective: (1) Assess the impact of the project to date; (2) redesign the project to reflect project experience, current security realities, and needs of the agriculture sector (to the extent determinable at this time) which should be provided by this project keeping in mind the changing needs inside Afghanistan; and (3) identify and make recommendations for new agricultural projects/activities (outside the purview of this Project) and future studies of the agriculture sector. The key element in the redesign must be flexibility to expand/retract proposed project activities given the realities of funding availability.

IV. Scope of Work: The contractor team will be required to undertake a dual-purpose assignment -- an assessment of the ongoing project and its technical assistance (in this case the grantee VITA) with the objective of identifying possible improvements/modifications leading to a redesign necessary to meet the changing needs inside Afghanistan. The information gathering stage will not be limited to information needed to assess VITA's operations and the Project's redesign, but will include information about the needs of the agriculture sector which presently are outside the scope of the Project, e.g., credit and fertilizer needs, training for para-veterinarians, etc. This will allow the team to make recommendations requested in the previous paragraph.

1. Rapid Assessment of Current Project: The purpose of this 12-15 day exercise will be to give the AID/Rep a document which assesses the appropriateness of A.I.D. assistance, including its mode of implementation, and recommend specific, practical improvements which can be implemented in light of the evolving security and donor environment. The assessment will address, but not be limited to, the following questions:

A. Team: Is the technical assistance team effective - are there sufficient numbers of expatriate, Pakistani and Afghan personnel with appropriate backgrounds to meet project

objectives? Should there be changes in the numbers and mix of skills? Is the field team organized in the most effective manner to implement Tracks II and III? Should Tracks II and III continue to be in the same project and/or implemented by the same contractor?

B. Systems: Are VITA's accountability and record keeping systems adequate?

C. Operating Functions: If field activities take on operating functions which are normally those of a government agency, how will this affect relationships with VITA and A.I.D.? Should the operating arm be spun off, say as an independent foundation which could accept assistance from a variety of sources? Are relationships between VITA and the Afghan and Pakistani organizations satisfactory? Are changes needed?

D. Role of PVO: Is the nature of VITA's role in this project such that a PVO (VITA or any other) faces institutional and attitudinal constraints in carrying out its contractual responsibilities effectively? Should this project be implemented by a private consulting firm or organization rather than by a PVO? Assuming a PVO is appropriate and capable of implementing this project, should VITA continue to be the contractor? If so, does VITA have the institutional capability to implement the project as it may be changed and/or expanded?

E. Organizations: What progress has been made in creating effective Afghan organizations to provide assistance to the agriculture sector? What role, if any, might a resuscitated council have in future project activities? What progress has been made in strengthening existing agricultural services in project areas? Which of these can and should the project try to develop or strengthen? Which, if any, should be split off as new projects?

F. Inputs: Are priorities established for inputs consistant with the evolving environment? What changes, if any, are recommended? Is satisfactory progress being made in providing inputs through existing mechanisms? Are any changes recommended in the procurement system? What are the problems of allocation and distribution of inputs? What lessons have been learned? Are project inputs being delivered at acceptable costs compared to alternative approaches to obtain the same objectives? Are subsidies effective and/or necessary to make distribution of inputs to farmers?

G. Training: Is satisfactory progress being made in training agricultural technicians and para-engineers under VITA auspices? Does the training program need to be broadened or expanded to meet needs for trained personnel?

H. Monitoring: Is the monitoring and evaluation unit appropriately organized and staffed? Is the system providing reliable information and analysis about quality and adequacy of inputs and how they are distributed and used?

I. General Project Activities:

-Radio - is the VOA radio broadcast activity effective and should this continue under VITA or other auspices?;

-Nurseries and research - has satisfactory progress been made in establishing and operating seed nurseries and agricultural research? Should these two activities continue under VITA or other auspices?;

-Rural works - does RWD have the right kind of equipment and supplies to carry out its tasks?;

-Concentration: is the RWD spread out over too large an area to have significant impact?;

-PVOs - is VITA effectively assisting PVOs in their rural assistance activities?

2. Redesign of Current Project: After completing the draft of the assessment in the third week, the team shall brief the AID/Rep on its findings, conclusions and recommendations with respect to the current project and its redesign/modification. This briefing will provide the basis upon which the team will proceed to undertake the remainder of its assignment. Once agreement on an outline is reached (the draft outline should be available at the same time as the assessment is discussed), the team shall prepare a revised Activity Approval Memorandum (AAM), the Afghan program equivalent of a project paper which incorporates agreed to changes derived from the assessment. (N.B.: this document does not require the standard project analyses required of an A.I.D. PP.) The effort will result in an AAM acceptable to the AID/Rep with the required sections on, inter alia, background, purpose or objective of revised project; activities that should be supported by the revised project; magnitude of inputs that should be provided (including detailed cost analysis for any construction requirements); implementation methods for delivery of resources; new life of project budget estimates and completion date; and need for waiver or continuation of existing waivers. Also, and to the extent possible, the revised AAM should include a discussion on the relationship of the (revised) Project to the (to be approved) AID/Rep transition strategy for resettlement

and recovery. (The AID/Rep will provide guidance to the contract team in this area.) The revised AAM must provide flexibility to allow an appropriate response to evolving political, military, and economic conditions and changing relationships with the Government of Pakistan, the Alliance, other Afghan institutions and other PVOs. The AAM should include but not the limited to:

A) Discussion which addresses problems identified in the assessment and reflects the broad policies and directions of AID regarding the Afghan agriculture sector. The redesign should include the maximum feasible implementation flexibility to permit adequate response to rapidly changing conditions. The team will take account of what may be provided for the agriculture sector under other AID/Rep programs (e.g., other PVO projects) and by other donors in projecting what can and should be done under this project, for how long, and at what cost.

B) Careful examination of the relationship of VITA (or any other implementing contractor) to other organizations providing assistance to the agriculture sector; for example, should VITA provide in-house TA to PVOs involved in agriculture and rural works projects? Should VITA provide in-house TA as well as grant funding to other PVOs for implementation of activities in the project? Should VITA have only a coordinating role with other PVOs? Or should VITA have no role vis-a-vis other PVOs?

C) Relationship to the AID/Rep transition strategy whereby project objectives and activities are consistent with those approved in the strategy.

D) Discussion of possible separate or new activities. The team will identify (i) activities now being carried out by VITA (or others) which might be spun off as separate, new projects; (ii) activities not in the current Project but which should be started as new projects when sufficient information is known to provide design instructions; and (iii) subjects for which surveys, pre-feasibility, feasibility or other type studies should be made which might lead to new projects financed by AID or other donors.

Following identification of other activities and concurrence by the AID/Rep as to the acceptability of these activities, the team will identify the levels of effort required to undertake the necessary designs/studies and the types of technicians required to undertake the job. (Note of

clarification: the team is, in effect, being requested to write draft scopes of work for the design/study of these other activities. They will not undertake the design/study themselves.)

Possible new agricultural activities to be examined by the team (the team is free to consider others) include:

1. Activities to reduce the growing of poppy in Afghanistan (e.g., education and promotion of alternate crops).

2. Activities that the animal holding facility in Peshawar (presently being operated by the contractor for the Commodity Export Program) should carry out in the future. Should this facility be managed under the Agriculture Project contractor or another contactor? Should or could this facility be redesigned to support the transfer of other animals, e.g., bullocks?

3. Program of veterinary and/or a para-veterinary operations in Afghanistan or along the Pakistani border.

4. Activities by A.I.D. or other donors to meet Afghan fertilizer needs. Should the Project and its implementing contractor provide fertilizer? Should the Commodity Export Program logistics contractor procure and distribute fertilizer? Is the pre-war A.I.D.-asisted Afghan fertilizer corporation still a suitable mechanism for fertilizer supply and distribution? If so, what assistance could AID or other donors provide?

5. What would be an appropriate mechanism for AID or another donor to contribute to a credit program (e.g., a separate project, monetized Food for Work, or another approach)? Could the Afghan Development Bank of Kabul (ADB) eventually become a suitable mechanism to receive donor funds for a credit program? Would VITA or some other contractor be the most appropriate conduit?

6. If there exists a need for a centralized management information system (MIS) to collect and analyze agricultural data about Afghanistan, what purpose should the MIS serve? Where should it be located? How should it be managed? Who should be its clients? What should its relationship be to the Swedish Committee's "Agricultural Survey of Afghanistan"?

7. Activities to enable the forestry sector to provide building materials and fuelwood. Are the forests large enough to meet the greatly expanding needs of returning Afghans for materials to rebuild their homes and for fuelwood (heating and cooking)? Should reforestation efforts be a high priority for donor assistance? If so, in what form should his assistance take?

The team must be realistic in its assumptions of future funding levels required for any expanded and/or new activity. The fiscal constraints in achieving all the projected goals may not be possible to eliminate. Therefore, the AAM will be drafted "accordion" style, i.e., given funds available certain activities/geographic areas may have to be eliminated if insufficient funds exist. Likewise, if sufficient funds become available, other elements/geographic areas can be added.

V. Sequence of Services:

A. Team Planning (2 days): A Team Planning Meeting (TPM) will be held in Washington, D.C. sponsored by the contractor with appropriate personnel from the contractor's team, VITA, headquarters personnel, AID/Washington, and PVO or Afghan organizations located in the Washington, D.C. area with an interest in the Afghan agriculture sector. (N.B.: one additional day will be spent in AID/W reviewing files as discussed above - for a total of 3 days in AID/W.) The contractor is encouraged to bring in people from other firms or elsewhere who have had experience in Afghanistan that is relevant to possible new activities, especially fertilizer, ag credit and remote sensing. The team should meet with the Devres Retrospective Review Team to learn about existing studies and documents that might be useful; e.g. IBRD "Journey

to Economic Development - Afghanistan" in two volumes, March 17, 1978 (AID/Washington will set up this meeting). The TPM will produce a preliminary assessment report format (Table of Contents), a work plan, and initial work assignments for team members. These will be shared with the mission upon arrival in Islamabad.

B. Services in Pakistan

The assignment will be carried out under the guidance of the mission in Islamabad and Peshawar in four phases. The team will do most of its work in Pakistan, mainly in Peshawar, with a limited amount of work done in the United States. The team will work a six-day week in Pakistan.

Weeks One Thru Three Assessment and Information Gathering The team will spend three weeks in the field (working out of Peshawar) gathering data for the assessment and other activities to be identified outside of the current and/or redesigned project. The team will review project documents, including the initial AAM and amendment, VITA's periodic progress reports, and other relevant documents and data such as the Agricultural Survey of Afghanistan made by the Swedish Committee (May, 1988) (some of this information will be made available in AID/W for review). The team will interview VITA staff, other PVOs involved in agriculture, and other A.I.D. contractors working with the Afghan program. At the end of the third week, the team will brief the mission on its findings, initial conclusions and recommendations for redesign, spinoffs of ongoing Project activities as separate projects, new projects for the agriculture sector, and studies that should be made of the agriculture sector. The third week will also be spent continuing to collect information necessary for the redesign as well as information leading towards recommendations of projects/activities outside the purview of the current project (revised Project).

At end of second week, team will brief mission on findings, conclusions, and recommendations with respect to current repeat current project and its redesign/update. A proposed outline of assessment report will be provided at this time.

By the end of week three, the team will provide the mission a draft assessment report for review and will provide outline and brief Mission on tentative ideas for redesign of current VITA contract, suggest additions to ASSP project or recommend spinoffs of ongoing activities which team feels might better be separate activities, present preliminary list of new activities for Mission consideration, and provide proposed work schedule for remaining five weeks.

Week Four Mission will provide comments on assessment report and outline by end of week. Mission expects to provide guidance on redesign of current activities, and select highest priorities for development of new ideas consistent with team expertise and time available. We expect that complete AAM amendment can be prepared for current project which may contain some new activities as well as updating AAM for current activities. One or more AIMS will be included in work schedule. Team will be expected to recommend further activity exploration. Team will work on proposed redesign while waiting for formal Mission guidance.

Week Five Team will provide draft final assessment report (including completed A.I.D. Project Evaluation Summary (PES) form) for Mission review, and a detailed outline of AAM amendment. Mission will review and provide comments in no more than four days.

Week Six Team will incorporate Mission comments and ready report (including PES) for printing.

Week Seven Team will provide full draft of AAM amendment, and preliminary drafts of AIMS and further study recommendations no later than middle of week seven. Mission will provide comments/guidance by AM of first day in week eight.

Week Eight The Team will provide complete final drafts of all reports prior to deperting post at end of week eight.

C. Report Finalization The Mission will review and provide instructions for the final document within two weeks after team's departure, or by end of first week in January if holidays fall in two week period. The team leader and the AID/W design officer(s) will work together to revise the final reports as required. These documents will be sent to the Mission by courier express for review and final approval.

D. Return Visit The contract may be amended to include a return visit by one or more team members, if necessary.

VI. Qualfications: The contractor will provide five individuals as follows:

1. Team Leader (10 weeks): Broad experience in the overall field of agricultural development in the Developing World including extensive experience in the general fields of crop and livestock production and agribusiness. This individual must also have a broad understanding of micro and macro economic concepts. This knowledge will be necessary in developing strategies to rehabilitate and enhance the development of the Afghanistan agriculture sector. The team leader must have strong conceptual abilities and excellent writing skills. It would be advantageous if this individual has previous experience in Afghanistan and a good working knowledge of AID's documentation requirments.

2. Senior Agriculturalist (5 weeks) PHD in agriculture or agriculture economics and 20 years plus experience in senior agriculture positions in LDCs. Depth of knowledge on agriculture commodities projects, design of agriculture programs, remote sensing applications to agriculture, and agriculture strategy in general. Outstanding writing and conceptualizing skills.

3. Agronomist/Agricultural Engineer (5 weeks): At least ten years experience in developing countries. Experience with farm power and machinery appropriate for small farms; with irrigation systems and cultivation practices for dryland and irrigation farming is essential. Experience in Afghanistan or other Asian semi-arid countries desirable.

4. Civil Engineer (7 weeks): At least five years experience in developing countries in design and construction of basic rural works, including farm-to-market roads, bridges, and minor irrigation works. Experience in Afghanistan or other semi-arid countries desirable.

5. Anthropologist (4 weeks): At least five years experience in developing countries, especially with rural or agricultural activities. Some experience in Afghanistan or other Muslim countries is essential.

VII. Team Schedule and Reporting Requirements:

The outputs of this assignment will be three documents or sets of documents: (1) assessment of the ongoing Agriculture Sector Support Project: (2) a list of recommended separate projects and scopes of work for studies; and (3) a revised or new AAM.

(1) Assessment - A draft of the final assessment will be left with the AID/Rep prior to departure from Pakistan. Following incorporation of AID/Rep comments, the final document, which will be produced in the U.S., will be given to ANE/PD for forwarding to the AID/Rep. As part of this assessment exercise, the team will be expected to complete a standard A.I.D. Project Evaluation Summary (PES) form. This form will be provided to the team in the field and shall be completed prior to departure from Pakistan.

(2) Redesign - At the completion of the seventh week of assignment the consultants will make a verbal presentation to the AID/Rep on the status of the revised AAM. The presentation will be based on the draft AAM which will be distributed to the AID/Rep at least four days prior to the presentation. A final draft will be left with the AID/Rep. Comments and instructions for the final document will be provided within two weeks after the team's departure, or by the end of the first week in January if holidays fall in the two week period. The team (chiefly the Team Leader and Project Design Specialist) will put the report in final based on review comments. The final report will be completed in the United States and will be submitted to ANE/PD for transmittal to the AID/Rep. If necessary, the team leader and design officer will return to Islamabad to complete the document.

Research and Team Planning in Washington	Oct 11 - 13
Arrive Islamabad	Oct 15
Draft Assessment Report	Nov 3
Final Draft Assessment Report	Nov 17
Full Draft of AAM and Preliminary Drafts of AIMs (Redesign Reports)	Nov 29
Final Drafts of Redesign Reports	Dec 10
Team Leader Departs Pakistan	Dec 11
Mission Comments Cabled to Washington	Jan 3
Final Reports Printed and Sent by Courier Express to Mission	Jan 17

VIII. Period of Performance

The period of performance of this contract shall be from October 1, 1988 thru January 31, 1989.

VIII. Miscellaneous:

1. The mission, with the assistance of the USAID/Pakistan GSO, will provide the team with the following support:

- Transportation within Pakistan (during the time the team is in Peshawar, a car and driver will be asigned full time to the team);
- Office space in Peshawar in the office of AID/Rep's Regional Affairs Officer;
- One personal computer and printer (IBM and Wang compatible ACER PC) in Peshawar;
- use of office photocopier machines in Islamabad and Peshawar;

2. The contractor will be responsible for providing the following:

- Secretarial help in both Peshawar and Islamabad;
- Office space in Islamabad (team leader might occupy a suite in the hotel and use an extra room as the team's office);
- Additional personal computers, as needed. Since rental of PCs in Islamabad is uncertain, the team should rent or otherwise obtain the needed additional PCs (laptop) in the United States and bring the equipment with them to Islamabad. No electric typewriters will be available for the team to use during its stay in either Peshawar or Islamabad. Therefore, to the extent the contractor feels it is necessary, the contractor is required to purchase (reimburseable under contract) 1 electric (220 volt) typewriter, preferably an IBM 6746 or IBM Selectric. The contractor must clear price with AID/Rep prior to purchase of this piece of equipment.

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Attachment 2

Composition of Assessment Team

The assessment team consisted of five persons, two of whom were provided by the prime contractor--RONCO Consulting Corporation--and three of whom were provided through a subcontract to Devres, Inc.:

Name	Designation	Source
Leon F. Hesser	Team Leader	RONCO
Richard Newberg	Senior Agriculturist	RONCO
Blair Allen	Agronomist	Devres
Tom Barfield	Anthropologist	Devres
Herbert Springer	Civil Engineer	Devres

A PROPOSAL FOR FINANCIAL ASSISTANCE TO REFUGEES RETURNING TO AFGHANISTAN

Approximately 400,000 families (2.4 million people) are living in refugee camps in the Northwest Frontier and Baluchistan Provinces of Pakistan. International food aid is distributed to these refugees by the Government of Pakistan through the U.N. using a family ration card system. Under the direction of the U.N. Special Coordinator and with the support of the international community, the UNHCR and WFP are proposing to assist repatriation of these refugees in two basic ways.

Operation Market Place

One system currently under investigation calls for monetizing donated wheat and purchasing ration cards at a fixed price when the refugees are ready to return. This grant-in-aid which could be equivalent to 6 month's wages of an unskilled laborer ($350 equivalent), would be made in Pakistani rupees freely convertible to Afghan currency at the border at the existing parallel (unofficial) rate. The money to finance this program, estimated at $140 million would be raised by a combination of donated food, monetized by sale on the open market in Pakistan or direct food sales to the refugees and convertible currency donations from the international donor community. Operation Market Place is referred to throughout the AAM Amendment as the "grubstake" program.

Direct Distribution

A second system to support repatriation of unregistered refugees in Pakistan and displaced persons in Afghanistan (those who do not have ration cards) would also be required. This system would provide direct food and material assistance at established points inside Afghanistan. Providing direct assistance over difficult terrain will involve the development and use of an effective logistics network. This network (UNILOG) now being formed will consist of heavy trucks to move supplies and equipment needed for the repatriation process and leasing from private sector transporters. The ACLU will likely play a major role.

It is currently estimated that both systems will be required to address repatriation needs. Both programs will have implementation problems given the logistics, political and administration factors involved. These efforts, which are critically important to rapid and successful reassimilation of refugees need to be tested and made ready for operation before the bulk of the refugees begin to return. The ACLU is already available to play this role.

EXTERNAL AND INTERNAL TRADING NETWORKS

1. Government Institutions and Trade

Determining the cost of commodities produced or distributed by state-owned institutions in Afghanistan is fraught with difficulties. The major problem is determining the relationship between the artificially low official prices set by the Kabul Government and the market prices for the same goods, and then estimating what percent of the population acquires its goods at which price. However, this focus on the "official" versus "black market" price ignores the important role played by state officials in linking the two markets into a single system and the degree to which there are rational connections between them. Although no data is available on current practices in Afghanistan, the apparently contradictory data on fertilizer prices suggests that the relationship between the market and state-owned industries is much the same as before the War.

A state-owned industry in Afghanistan is run by salaried managers. They are provided with target production levels, seemingly rarely met, and sales quotas, seemingly always met. The price at which they sell the factory's production is set by a ministry or by the president of the state corporation. The sales price is invariably well below the market price for the same goods and often less than the production costs. Under such conditions, the demand for the product at the government price greatly exceeds the supply. However, one cannot buy directly from a state company without a permission, or ejaza, issued by the branch manager for his factory, or by the company president for any branch. The ejaza allows the bearer to purchase a specific amount directly from the factory at the fixed price. Since the supply exceeds demand, and it is normally the factory manager who decides who gets the permission. Purchasers are willing to pay anyone who can acquire such permission, which is then unofficially bought and sold in a sort of local options market.

Thus, managers can make considerable money in payment for their signatures in the course of doing their regular job. How much people are willing to pay for a permission depends on market demand. If demand is high and the supply limited, the price for an ejaza can represent an additional thirty percent or more of the fixed price, while if demand falls because of increased supply from the factory or some outside source, the value of a permission can fall to nothing. (It is to prevent the market in signatures from collapsing that officials regularly set the fixed price below production costs so that private producers will be unable to compete).

It is the need to obtain permission that creates a multiple market in which there are three types of buyers: consumers, middlemen

dealing in permissions and bazaar merchants. Using fertilizer as an example, the consumer is the farmer who actually needs to use the commodity. He would prefer to buy on the open market because that is easiest, but if there is a substantial difference in the company and market price, he will attempt to buy directly from the company. If the farmer has political or tribal connections, he may be able to get the permission gratis as a favor, one way managers build and maintain local support. If this is not possible, then he may pay the manager directly for the permission. However, smaller farmers may lack the influence even to get into the manager's office, let alone bribe him. These farmers seek out middlemen who for a fee acquire permission. Influence peddlers are sometimes corrupt and fail to deliver what they promise.

Both farmers and middlemen compete with bazaar merchants who pay to buy at fixed prices so that they can resell the goods on the open market. They will often pay a premium to control the entire supply so that consumers can only find the product at the market price. It is the demand of the bazaar merchants that sets the price of an ejaza. Managers often manipulate the market by withholding supplies to drive the cost of their signatures up. Of course, if the market price rises enough to depress consumer demand, this is reflected in a drop on the ejaza futures market. Because the company price does not change, the only flexibility in the system is the cost buying permission, so it moves more rapidly than other prices.

There are, therefore, at least three different prices that could be obtained from farmers in a survey:

1) fixed company price
2) fixed company price + ejaza price
3) fixed company price + ejaza price + merchant's profit

The price of fertilizer, therefore, does not "double" once it leaves the factory gate. Rather, it "doubles" while inside the factory store room as the price of the paper required to release it is traded. The ejaza is not simply a form of venality that can be reformed out of existence, it is the structural mechanism that links the production of fixed price state produced goods with the demands of the marketplace. The free market is not a black market because the goods were not stolen, but acquired legally with the proper paperwork. In determining the price paid by Afghan farmers for commodities like fertilizer, A.I.D. must keep in mind that the varying figures collected may well represent the different ways of buying.

II. Trading Networks in Afghanistan

The movement and sale of goods in Afghanistan has traditionally been handled by networks of bazaar merchants and long distance

traders. In general, the networks are best developed around major urban areas and least developed in the marginal mountainous or desert regions. This trend became more pronounced with the completion of the paved road linking the major regions of Afghanistan, although because of the War there are now many more pack animal trails that have acquired considerable importance. While the War has done tremendous damage to Afghanistan's economy, and governmental institutions have practically disappeared in many areas, some trade networks are still intact and have been moving goods throughout the country. They constitute the most efficient way of distributing commodities even if there is no effective central government. Unfortunately, since there was little research done on traditional marketing before the War, only the outline rather than the details of how it works is available. In general, a major distinction needs to be made between domestic and international trade networks even though they are both closely related.

The major cities of Afghanistan act as both regional nodes for moving local goods and the resale of foreign goods. As the capital and major population center, Kabul is the largest market, with the greatest number of wholesalers and the widest variety of goods. Kabul's reach is nationwide and wholesalers there have distributors in most major areas of the country. Secondary centers such as Kandahar and Mazar-i-Sherif, and to a lesser extent Jalalabad, Herat and Kunduz (which have access to both foreign and domestic trade) have well developed trading networks. It is in such cities that goods are stored for resale to provincial markets.

Below these cities are a large number of towns that have bazaars serving local communities with goods supplied through wholesalers. These bazaars constitute the nucleus of periodic markets which are generally held twice a week. On bazaar days, people from the surrounding countryside arrive to sell local products (grain, animals, fruit, local handicrafts) and to buy things they need, particularly cloth, locally produced and imported manufactured goods, tea, kerosene, and luxury items. For populations beyond a half-day's travel to the nearest bazaar, trade is generally much more restricted. Mountain areas like Badakhshan and the Hazarajat depend to some extent on long distance trading nomads who take goods into the mountains to barter, or who buy surplus grain and animals for cash. However, people from distant villages must make at least one or two trips annually to a regional bazaar to buy bulk goods like salt, so even in the poorest regions with difficult transport problems there will be at least one bazaar town.

The relationship between merchant importers and their suppliers is long-standing. Often they are members of the same tribe or clan, and certain goods or transport services may be practically a monopoly

by one group or another. Even at the local bazaar, consumers often choose to buy only from one or two shopkeepers. In any event, since the court system in Afghanistan has never been considered either fair or timely in resolving disputes, all long-term business relationships that depend on advancing credit or goods are based more on personal than contractual relationships.

Networks for the movement of goods across Afghanistan's borders are also well developed, with merchants and other shippers taking advantage of Afghanistan's liberal import policies to re-export goods to Pakistan. Livestock, drugs, and semi-precious stones (banned from legal export) also depend on well developed smuggling routes. As part of the War effort by the Mujahideen, arms have moved in large quantities along these non-documented routes. In contrast with the trade in documented imports and exports, or with Afghan domestic trade in general, the smuggling routes seek out remote areas of sparse population that can support truck or animal traffic. The high value of the goods they deliver and the need to avoid interdiction compensates for the high cost of transport.

In supplying cross-border trade, the differences between high cost smuggling routes and cheaper legal routes must be kept in mind. Bulk commodities like grain can be moved efficiently for short distances over smuggling routes to get them into Afghanistan, but they must then enter the commercial markets in the major cities to be effectively distributed outside of the border region. In planning, commodities cannot be allowed to simply glut the border markets and move no further. One way to achieve this goal is to make connections with merchants in Afghanistan who are the domestic wholesalers of such goods to make arrangements for delivery to them rather than relying simply on the smuggler truckers to dispose of the goods.

(1). Cross-Border Trade

International trade between Pakistan and Afghanistan is handled largely by bazaar merchants. Interviews conducted with cross-border merchants used in the VITA program provide an understanding of the basic structure of the market and how it is organized. Along the Afghan frontier there are two basic trade networks, the larger based in Peshawar trading with Kabul and the smaller based in Quetta based on trade with Kandahar. Merchants in one market do not normally compete in the other's market (not surprisingly since they represent somewhat distinct ethnic regions in Pakistan.)

Afghan merchants usually provide money in advance for the goods they order from their Pakistani counterparts. The money is

transferred using hundis, notes of exchange issued by money dealers in the Kabul bazaar to money dealers in Pakistan. This market is capable of handling at least a couple of million dollars monthly, although individual transactions are normally in the $100,000 range or less. The goods are shipped by truck to Afghanistan. If they have proper permits, the trucks take their loads through proper customs procedures and use the main roads. Having official documents makes the cost of transport much cheaper and merchants have devised a variety of stratagems for obtaining the needed Afghan permits. The trucks are owner-operated and merchants negotiate a price for the trip. Truck operators are currently paid between 4,000 and 10,000 rupees for a Kabul-Peshawar run, depending on the demand for trucks and the danger or delays that are expected.

The merchants involved in this trade on the Pakistan side have often been in the business for generations. Merchants on both sides of the border depend largely on personal reputation and their personal relationships in determining with whom they will do business. The Afghan merchants tend to be generalists, buying and selling whatever commodities happen to be profitable. Pakistani merchants are more specialized and tend to restrict their activities to a particular line of goods. Both sides rely on their own trading capital and rarely attempt to borrow money from banks. Some are opposed for religious reasons, objecting to payments of interest, but a more important reason appears to be fear of making business or personal assets known to outsiders where questions might be raised about taxes or illegal currency transactions.

Under the amended ASSP, the number of merchant firms involved will be relatively few because they must have a substantial proven network already developed in Afghanistan. The Pakistani merchants will handle the business in Afghanistan so that there need be no separate agreements with Afghan merchants.

The merchants on the Pakistan side probably do not require loans to facilitate expansion because they collect much of the money in advance. If credit is to be made available, it will be needed in the future on the Afghan side.

The Project contractor will focus on getting the necessary export clearances for products currently in Pakistan, but it will not take possession, store, or sell any goods itself. It will simply facilitate better export conditions, and cost comparatively little except for the addition of any subsides deemed necessary.

The Role of Shuras in Planning for Area Rehabilitation Schemes(ARS)

Local administration in Afghanistan has traditionally been ordered from the top down rather than the bottom up. Local officials were responsible to their respective ministries in Kabul rather than to the local population and were normally strangers to the areas they administered. Provinces and districts were deliberately made small and officials transferred often to prevent them from developing local power bases. Reflecting the ethnic bias of the central government, most officials were Pashtuns, particularly in the non-Pashtun areas of the north and west. These officials had few responsibilities beyond maintaining peace and order, and used the coercion provided by the police or army to enforce government orders. However, until the establishment of the PDPA, they generally attempted to avoid conflict whenever possible, made few demands in the way of taxes, and rarely interfered in village affairs.

Village and tribal organizations were, by contrast, highly localized and depended on developing consensual decision-making. Political ideology was less important than ties of kinship or locality. Institutions at this level were responsible for maintaining local irrigation systems, supporting local mosques and mullahs, and defending the village against outside interference. In terms of social organization, the family and the local tribal group took political primacy. The degree to which people could be mobilized beyond the local village depended on the severity of the problem and the cohesiveness of the tribe or ethnic group. However, these social groups played only an indirect role in regional politics. Government was concerned with the reaction of villagers but did not think it necessary to involve them in planning. If resistance to any given plan proved too great, it was quietly dropped. National politics was the sphere of the "big guys" in Kabul and unless a policy had a direct impact on their lives, villagers expressed little interest in them.

The conflict in Afghanistan has altered the political balance of power and destroyed the legitimacy of the central government. Mujahideen fighters have organized around local commanders who have strong ties to the regions in which they operate. In the past few years, new local level political bodies such as shuras, or local councils have emerged. Shuras include locally prominent village and political party representatives in a district. While not a formally elected body, its members do appear to represent the collective will of an area. They operate as a consultative body and, although they may have no conferred power to enforce their decisions, have become particularly important in setting policy on issues that had previously been under government control. As grassroots organizations, they represent a critical change in Afghan politics: people now feel they have the right to select local representatives themselves and hold them responsible for their actions.

Project planning for ARS' attempts to encourage the development of institutions such as shuras by including them in the implementation process.

The broad outlines of agricultural rehabilitation in any ARS will be formulated by the planning group in Peshawar for the Project as a whole using macro level information. For example, the central office will decide what crops should receive priority, the size and complexity of irrigation systems to be repaired, what types of road or bridge repair are most feasible, and the type of machinery or agricultural techniques that should be demonstrated. However, the shuras will be consulted to refine the design to fit specifics of an individual ARS and, more importantly, set the order of completion or distribution of inputs within acceptable parameters. Although the choice of priority project parameters will conform to those set out for all ARSs, the order of road rehabilitation or which canals should be repaired first would be done with community consultation. This should spread the Project benefits to the greatest number of people and avoid charges of undue favoritism. Providing the shuras with responsibility will also create the links that will be important if, as expected, they play a future role in provincial government. In addition, they will provide a unique training ground for Afghan Project officials to learn to deal with rural villagers as development clients rather than its objects.

Targets of Opportunity - New ADS Sites

Current ADS sites are located predominately in the second tier of provinces along Afghanistan's eastern frontier with Pakistan south of the Hindu Kush. While the majority of refugees in Pakistan come from these areas and the provinces on the border with Pakistan, the location of ADS's is too restricted to deal with the refugees who fled to Iran or to more secure parts of Afghanistan. In addition, the current provinces with ADS sites are not the most important in terms of agricultural production. In order to begin agricultural rehabilitation, the Project must look beyond getting the refugees home, to making the country as a whole productive. This cannot be done if the whole weight of the rehabilitation effort is based south of the Hindu Kush in the eastern provinces. It must be expanded to the north where the most agriculturally productive areas lie and to the west which has the greatest scope for further development. (The amended ASSP will not focus on the west, however, due to budget and staff constraints.)

In the past, the northern areas have been excluded from western development aid because they were assumed to be in the Soviet sphere of influence, an influence tacitly accepted by previous Afghan governments anxious to avoid provoking their powerful northern neighbor. This opinion is still current in much of the thinking about rehabilitation, yet upon withdrawal, the Soviets will have little direct influence over the regional resistance commanders who will have local authority, and no central government will have enough power to rule except by accommodation with these resistance leaders.

The other major reason for traditionally excluding the north from rehabilitation is the transportation difficulty over the Hindu Kush and its distance from Pakistan. In the event that overland trade through Iran would commence in the near future, it would take only the completion of the paved road from Herat to Shiberghan (over flat terrain) to allow supplies from the west to arrive in the north without having to transit the port of Karachi and then over the Hindu Kush from Kabul.

The advantages of working north of the Hindu Kush are both economic and political. Economically, the northeast is the most productive agricultural region in Afghanistan while the northern provinces rank second. They produce wheat to meet the south's needs and export crops, especially cotton. The gas fields are in the north and, while they currently pipe most of their production to the Soviet Union, an expansion of these fields with a pipeline to Herat would allow industry to develop the underproductive west.

Politically, developing the resources of the north would give the region more economic autonomy in its dealing with the Soviet Union and orient its production to other markets. It would also recognize the shifts in the balance of power among the different ethnic groups in Afghanistan. The northern areas were conquered by Pashtuns in the 19th Century and from that time have been governed by Pashtuns from the south. In allocating money, Pashtun areas were favored -- even when their potential for development was less. Government officials were almost exclusively Pashtun, even in Tajik and Turkish areas. During the War, however, local resistance leaders have arisen who in some cases will likely become provincial governors. For the first time in the north, political power could be in the hands of the local inhabitants. If they perceive that all the redevelopment money for rehabilitation is staying in the Pashtun regions, they will have little reason to cooperate with a new central government. It would be precisely this type of ethnic fragmentation that would allow Soviet influence to reemerge and which could potentially "balkanize" Afghanistan.

In terms of organizing rehabilitation efforts, the north and west have the advantage of greater political cohesiveness. Many major resistance leaders are members of Rabbani's Jamiat-i-Islami Party and, more than many commanders and parties elsewhere in the country, have demonstrated an interest in providing civil administration in the areas under their control. This provides the nucleus of local government through which projects can be organized and protected.

The amended ASTI will focus efforts -- though not exclusively -- in the north in order to speed the revival of the Afghan economy, lessen Afghanistan's dependence on trade with the Soviet Union and develop political ties with a broader range of Afghan ethnic groups. Given the Project's limited resources, it seems doubtful that assistance can be provided to the western provinces any time soon.

Analysis of the VITA Commercial Channels Program

An analysis of the function of the Afghan agribusiness private sector should begin with an analysis of the "Track II", or commercial channels, activities of VITA.

As a part of these activities, VITA has had considerable success stimulating the movement of a limited but specific group of commodities into Afghanistan through private commercial channels. This activity effectively started in July 1987, and has been operating through only two agricultural production seasons. It has been exploratory in nature and market research oriented in approach.

During the first two seasons of the program, VITA helped private sector traders to export the following quantities of commodities into Afghanistan: 308 Batala threshers; 1,164 Chenab 5 x 4 inch - 12 HP irrigation pumps; 43% Honda "3 inch" irrigation pumps; 152 rice dehullers, and spare parts. The total value of these commodities at retail amounted to approximately $1.5 million.

The action taken by VITA to stimulate this flow of commodities was simple. VITA offered the cross-border traders a promotion incentive, or rebate, of approximately 22 percent of the value of the goods they exported to Afghanistan. This incentive was in turn reflected in an equal price reduction to the Afghan customer. In exchange for this incentive, the entrepreneurs made all the arrangements for moving the goods into Afghanistan: shipping, handling, marketing, and all afghani-rupee exchange transactions. This incentive was sufficient to effectively compete with the existing centrally-planned priced products from the Soviet Union and Eastern Bloc countries and high enough for the entrepreneurs to overcome the difficulties involved in cross-border trade. The participating entrepreneurs believe that reduction in the selling price resulting from the promotion incentive has doubled the demand for the commodities imported. They also believe that the availability of better quality "non-East Bloc" products will help re-establish a future effective market demand for these "Western/Pakistan"-produced items.

VITA's experience suggests a number of very significant ideas for the design of a private sector "CIP-like" program in support of Afghanistan's agriculture sector. First, entrepreneurs will respond to marketing incentives. Second, sales of $1.5 million of four main products plus spare parts in two seasons indicates that the rest of the distribution infrastructure was amazingly functional under the existing circumstances. Third, a margin of about 20 percent indicates that the distribution system is still quite efficient. Fourth, as indicated by the sale of threshers, economically acceptable appropriate technology, if made available, will be transferred and adopted by farmers. Fifth, there is some remaining effective purchasing power at the farm level in Afghanistan, and farmers are economically rational in its use.

The botion line is that of a private sector distribution success story. Traditional private sector entrepreneurs, encouraged by the project supplied incentives, were able to compete by offering a brand name quality product at a reasonable price to the consumer and at a reasonable cost to the system. The re-establishment of this private sector agribusiness system should be the most efficient and, therefore, sustainable method of supplying the immediate and long-term support required for the rehabilitation of Afghan refugees and the farming community.

Theoretically, adequate amounts of incentives would make almost any item attractive under the conditions identified above. However, the large subsidy applied at the present time to the price of fertilizer in Afghanistan, limited local availability, and high transportation and distribution costs would suggest that a different approach may be needed for fertilizer. Similarly, the relatively high degree of economic substitutability of "farmer saved" seed for improved yielding varieties and the potentially large quantities needed as well as the tradition of highly subsidized prices also make seed a special case.

OUTGOING TELEGRAM

Department of State

ANNEX H
PART A

ORIGIN OFFICE ANPD-05
INFO ANDP-03 ANSA-03 ANAF-04 SAST-01 PPR-01 PPPB-02 GC-01
GCAN-02 ANTR-06 PRE-06 STAG-02 AAPF-01 SEOP-01 SEOS-02
FPA-02 SERP-01 RELO-01 AMAD-01 /045 A0

INFO LOG-00 CIAE-00 EB-00 DODE-00 NEA-04 /004 R

DRAFTED BY: AID/ANE/PD/SA:PLAPERA::PL:3661N
APPROVED BY: AID/ANE/AA:CADELMAN:
AID/ANE/AF:JHALICK (DRAFT) AID/ANE/PD:RVENEZIA (DRAFT)
AID/ANE/TR:BTURNER (DRAFT) AID/PPC/PB/C:MRUGH (DRAFT)
AID/ANE/DP:MSCOVILL (DRAFT) AID/GC/ANE:JSILVERSTONE (DRAFT)
AID/ANE/PD:TRISHOI (DRAFT) AID/AND/PD:EKIVATISHVILLI (DRAFT)
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FM SECSTATE WASHDC
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AIDAC AID REPRESENTATIVE, LARRY CRANDALL

E.O. 12356: N/A
TAGS:
SUBJECT: AFGHANISTAN AG. SECTOR SUPPORT PROJECT AAM AMENDMENT

1. SUMMARY. TASK FORCE REVIEWED AAM AMENDMENT ON JANUARY 6, 1989 AND APPROVED THE AGRICULTURAL REHABILITATION SCHEMES (ARS) AND THE MONITORING, ANALYSIS AND PLANNING (MAP) COMPONENTS OF SUBJECT PROJECT. IN REGARD TO THE PRIVATE SECTOR AGRIBUSINESS COMPONENT, THE TASK FORCE APPROVED THE CONCEPT OF USING THE PRIVATE SECTOR TO PROVIDE AGRICULTURAL INPUTS. HOWEVER, THE OPERATIONAL DETAILS OF SUCH A PROGRAM WERE NOT UNDERSTOOD, AND THE TASK FORCE AGREES WITH THE MISSION THAT THERE ARE SEVERAL ISSUES TO BE RESOLVED AS MENTIONED IN THE AAM AMENDMENT. THE TASK FORCE IS READY TO RECOMMEND AUTHORIZATION OF THE ARS AND MAP COMPONENTS, BUT REQUESTS A MORE DETAILED DESCRIPTION OF THE PSA, PRIOR TO RECOMMENDING AUTHORIZATION. GIVEN THE SIZE OF THE PSA, AND THE PROBABILITY THAT THE MISSION CAN COMPLETE THE DESCRIPTION IN SEVERAL WEEKS, WE ASSUME THAT THE MISSION WISHES TO HAVE THE WHOLE PROJECT AUTHORIZED AT THE SAME TIME. THEREFORE, AS SOON AS TASK FORCE RECEIVES AND REVIEWS A MORE DETAILED DESCRIPTION OF THE OPERATION OF THE PSA, WE WILL RECOMMEND AUTHORIZATION OF THE PROJECT TO THE AA. POINTS THAT NEED TO BE COVERED IN THE DESCRIPTION OF THE OPERATION OF THE PSA ARE SUMMARIZED BELOW, AS ARE DECISIONS AND GUIDANCE RELATING TO OTHER PROJECT ACTIVITIES. THE TASK FORCE WILL DISCUSS THE PSA IN DETAIL WITH LARRY CRANDALL DURING THE WEEK OF JANUARY 23.

2. AGRICULTURAL REHABILITATION SCHEMES (ARS) COMPONENT. THE TASK FORCE WILL RECOMMEND AUTHORIZATION OF THIS COMPONENT AS PRESENTED IN THE AAM AMENDMENT. DURING THE REVIEW, THE PRIMARY ISSUE RAISED REVOLVED AROUND THE RATIONALE OF LOCATING PROJECT AREAS IN THE NORTH AND NORTHEAST OF AFGHANISTAN, VS. WORKING IN THE SOUTH AND EASTERN PROVINCES TO WHICH MORE REFUGEES ARE EXPECTED TO RETURN. THE TASK FORCE ACCEPTED THE RATIONALE PRESENTED IN THE AAM AMENDMENT AFTER CLARIFICATION, BY THOSE OFFICERS WHO PARTICIPATED IN THE RE-DESIGN, THAT THE OVERALL FOOD AND EMPLOYMENT NEEDS OF REFUGEES RETURNING TO THE EAST AND SOUTH WILL BE ADDRESSED BY THE U.N. AND OTHER DONORS, AND IT IS ANTICIPATED THAT SURPLUSES IN

THE NORTH AND NORTHEAST WILL CONTRIBUTE TO MEETING THEIR NEEDS. IN THIS CONTEXT, THE RATIONALE OF THE PROJECT IS THAT THE FOOD NEEDS OF THE SOUTH AND EAST CAN BEST BE MET BY PROVIDING ASSISTANCE TO THE FARMERS IN THE NORTH AND NORTHEAST. IN ADDITION, IT WAS CLARIFIED THAT AID'S AREA REHABILITATION SCHEMES CURRENTLY BEING IMPLEMENTED IN THE EASTERN PROVINCES WOULD BE MAINTAINED AND EXPANDED.

A. MONITORING OF THE ARS COMPONENT. IN DISCUSSING IMPORTANT FACTORS IN THE ARS COMPONENT, SUCH AS TRANSPORTATION BETWEEN AGRICULTURAL SURPLUS AND DEFICIT AREAS, DEMAND, DELIVERY OF INPUTS, ETC., THE IMPORTANCE OF MONITORING AND THE ABILITY TO ADJUST ACTIVITIES TO TAKE CORRECTIVE ACTION, IF NECESSARY, CANNOT BE EMPHASIZED ENOUGH. WHILE WE REALIZE THAT MONITORING COMPRISES A SEPARATE COMPONENT, THE TASK FORCE URGES THE MISSION ITSELF TO PAY SPECIAL ATTENTION TO CLOSELY MONITORING THE ARS COMPONENT. IN ADDITION TO MONITORING INFORMATION, AS DESCRIBED ABOVE, AND WHAT IS DESCRIBED IN THE MAP COMPONENT, THE TASK FORCE ALSO NOTED THE IMPORTANCE OF MONITORING ORGANIZATIONAL STRUCTURES AS THEY EVOLVE, AND OF OTHER SOCIOLOGICAL AND INSTITUTIONAL FACTORS. COLLECTION AND ANALYSIS OF SUCH INFORMATION IS CRITICAL TO ALL ACTIVITIES UNDER THE ARS COMPONENT, ESPECIALLY THE IRRIGATION REHABILITATION SCHEMES.

B. TRAINING UNDER THE ARS COMPONENT. WHILE TRAINING WILL BE RECOMMENDED FOR AUTHORIZATION, AS PART OF THE ARS COMPONENT, THE TASK FORCE NOTED THAT TRAINING WILL BE LIMITED TO MEET THE REQUIREMENTS OF THE PROJECT, I.E., SHORT TERM, IN,SERVICE, AND IN AFGHANISTAN OR PAKISTAN. HOWEVER, WE ALSO NOTED REFERENCE TO U.S. OR THIRD COUNTRY TRAINING OPPORTUNITIES FOR WHICH A SMALL AMOUNT OF FUNDING HAS BEEN BUDGETED (P. 26 OF THE AAM AMENDMENT). AS IN THE CASE OF THE EDUCATION AAM AMENDMENT, THE TASK FORCE CANNOT RECOMMEND APPROVAL OF NEW, PARTICIPANT LONG-TERM TRAINING. THE TASK FORCE ASSUMED THAT TRAINING WILL BE SHORT,TERM AND IN-SERVICE. IF THE CASE IS OTHERWISE, PLEASE CLARIFY.

3. COORDINATION WITH OTHER DONORS. SINCE THE THE UN AND OTHER DONORS WILL ALSO PROVIDE FOOD AND EMPLOYMENT TO REFUGEES RETURNING TO THE EAST AND SOUTH OF AFGHANISTAN, IT WILL BE IMPORTANT TO COORDINATE CLOSELY AND FREQUENTLY WITH OTHER DONORS. THE MISSION IS URGED TO PAY SPECIAL ATTENTION TO THIS PROCESS.

4. PROJECT MANAGEMENT AND TECHNICAL ASSISTANCE. VITA'S PERFORMANCE UNDER THE ARS (FORMERLY ADS) HAS BEEN GOOD OVERALL, ALTHOUGH WEAK IN SOME RESPECTS AS NOTED IN THE ASSESSMENT. WE APPRECIATE THE MISSIONS DESIRE TO CONTINUE VITA IN THAT COMPONENT AS LONG AS QUALITY PERFORMANCE IS MAINTAINED. THE TASK FORCE WISHES TO DO EVERYTHING IT CAN TO MAKE MANAGEMENT OF THE PROJECT LEAST BURDENSOME TO THE MISSION. ON JAN. 9, ANE/PD DISCUSSED THE OPTIONS FOR CONTINUING VITA WITH SENIOR CONTRACTING OFFICERS OF M/SER. THE CONSENSUS WAS THAT THE MISSION HAS TWO OPTIONS: TO SHORT LIST FIRMS CAPABLE OF TAKING ON PSA AND THE MAP COMPONENT OR FULLY COMPETING THE CONTRACT. BOTH OPTIONS WOULD INCLUDE RFPS WITH LANGUAGE REFERING TO THE CURRENT ARS ACTIVITY. ANE/PD WILL BE CONTACTING THE MISSION SEPARATELY TO FURTHER DISCUSS OPTIONS, AND THE MATTER WILL BE PURSUED DURING THE WEEK OF JANUARY 23.

5. PRIVATE SECTOR AGRIBUSINESS COMPONENT. THE TASK FORCE FOUND THE CONCEPT TO BE ATTRACTIVE, BUT A DESCRIPTION OF ITS OPERATION NEEDS TO BE SPELLED OUT AND MUST BE ACCEPTABLE TO THOSE INVOLVED, ESPECIALLY TO THE

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GDP. (WE ARE AWARE THAT A GREAT DEAL OF DISCUSSION ON THE OPERATION OF THE PSA TOOK PLACE DURING THE DESIGN OF THE AMENDMENT, BUT PERHAPS WAS NOT REFLECTED IN THE DOCUMENT BECAUSE OF THE CHANGE IN GOVERNMENT IN PAKISTAN.) THE TASK FORCE REQUESTS A DESCRIPTION OF HOW

THE COMPONENT WILL WORK, OPERATING PROCEDURES, AND ARRANGEMENTS (AGREED TO IN PRINCIPLE WITH THE GOP) BE PREPARED. THE DESCRIPTION, TO BE ATTACHED TO THE AAM AMENDMENT AS AN ANNEX, SHOULD ADDRESS ROLES OF PARTICIPATING ENTITIES. THE TASK FORCE BELIEVES THAT, AT A MINIMUM, THE DESCRIPTION SHOULD ADDRESS THE POINTS AND QUESTIONS PROVIDED BELOW.

,HOW WAS THE AMOUNT OF DOLS 33.7 MILLION ARRIVED AT?

-HOW WILL DOLLARS BE DISBURSED?

,APPROXIMATELY, HOW MUCH OF THE DOLS 33.7 MILLION WILL BE CONVERTED TO LOCAL CURRENCIES AND HOW WILL LOCAL CURRENCIES BE MANAGED?

-ASSUMING THAT THE PROCESS VARIES ACCORDING TO TYPES OF COMMODITIES TO BE PROCURED-FOR EXAMPLE, FERTILIZERS AND SEEDS ARE SPECIAL CASES-IT WOULD BE HELPFUL TO HAVE A COMPREHENSIVE, ILLUSTRATIVE LIST OF THE TYPES OF COMMODITIES TO BE PROCURED.

-A MODEL OR FLOW CHART SHOWING ENTITIES/ACTORS INVOLVED IN THE PROCESS AND THEIR FUNCTIONS AND HOW THEY RELATE, WOULD BE A GOOD WAY OF ILLUSTRATING THE PROCESS.

,PERHAPS VARYING WITH THE TYPE OF COMMODITY AND WHETHER GOODS ARE LOCALLY OR FOREIGN PRODUCED, CRITICALLY SHORT IN PAKISTAN OR NOT, ETC., FUNCTIONS OF THE FOLLOWING SHOULD BE CLEAR AND INTERRRELATED: OFFICE OF THE AID REP., PRIVATE CIP MANAGEMENT ENTITY, COMMERCIAL BANKS, MANUFACTURER/PRODUCER, EXPORTER, TRADERS, ANY OTHER MIDDLEMEN, AFGHAN CONSUMER/FARMER, AND THE GOP.

,USES OF LOCAL CURRENCY ARE NOT CLEAR AND MUST BE DESCRIBED IN MORE DETAIL. HOW WILL SUBSIDIES OR SUBSIDIZED PRICING WORK? HOW WOULD THE OFFSETS FOR GOP SUBSIDIZED COMMODITIES WORK? HOW WOULD INCENTIVES TO PRODUCER, EXPORTERS AND/OR TRADERS WORK? ARE ALL OF THESE TO BE INCLUDED IN LOCAL CURRENCY USE? WILL LOCAL CURRENCIES BE RESTRICTED TO THE SUPPORT OF THIS PROJECT?

-THE CONCEPT OF THE PSA COMPONENT, INCLUDING THE PROCESS, ARRANGEMENTS FOR FOREIGN EXCHANGE CONVERSION AND LOCAL CURRENCY MUST BE ACCEPTABLE TO THE GOP.

-MISSION SHOULD HAVE CONFIDENCE THAT THE PROCESS DESCRIBED IN THE ANNEX TO BE PREPARED, WILL BE, FOR THE

MOST PART, THE PROCESS PUT INTO OPERATION. THE NON,MARKET CIP DESCRIBED AS A QUOTE FALL BACK POSITION UNQUOTE ON P. 32 OF THE AAM AMENDMENT SHOULD BE A REMOTE POSSIBILITY, AND ONE WHICH WE WOULD WISH TO DISCUSS BEFORE ITS IMPLEMENTATION.

,MONITORING. HOW WILL THE MISSION MONITOR THIS COMPONENT TO INSURE THAT GOODS ARE REACHING THE AFGHAN FARMERS AT APPROPRIATE PRICES AND TO ALLOW FOR REDESIGN/MODIFICATION OF THE COMPONENT, IF NECESSARY? SHULTZ

Agricultural Sector Support Project (ASSP)

DETAILS OF PRIVATE SECTOR AGRIBUSINESS COMPONENT

Introduction

Annex I provides additional clarification to Part III. B.2. of the AAM Amendment document. The focus of this annex is to describe the operational mechanism guiding the Private Sector Agribusiness (PSA) component of the ASSP. Included is a discussion of the traditional marketing system, physical flow of commodities, use and management of both U.S. dollars and generated local currency, and monitoring involved in the undertaking of this particular activity.

Dollars will be used to offset foreign exchange losses incurred by the Government of Pakistan (GOP) as a result of increased export of various agricultural commodities to Afghanistan. Local currency will be the primary mechanism to accomplish the project objectives -- namely to help restore agricultural productivity through small-scale agricultural rehabilitation. Local currency will be used to finance the implementatition of existing and new project activities inside Afghanistan, thereby targetting assistance directly to war-affected Afghans. A brief summary of the PSA described in the AAM Amendment is presented below.

Summary

The purpose of the PSA component is to increase the flow of agricultural and rural development inputs to Afghan farmers in order to:

- o increase agricultural productivity to enable refugees and displaced persons to sustain themselves and become resettled in Afghanistan, and
- o strengthen economic and commercial ties between Pakistan and Afghanistan.

The PSA activity will work through the existing Afghan and Pakistani private sectors -- commercial channels have remained open throughout the war effort, although the majority of transactions have been "underground" -- in order to export agricultural and rural development goods produced primarily in Pakistan. Items to be initially included are agricultural inputs, machinery and building supplies. (An illustrative list of commodities to be procured is provided at the end of this document.) This effort will reflect an expanded use of the existing trading networks -- based upon the understanding that sufficient liquidity exists among at least a significant portion of Afghan farmers given the continued demand for certain agricultural inputs throughout the war. This demand is expected to increase as the war winds down and as refugees begin their journey back to their rural homes.

It should be noted that funds for this component will be obligated unilaterally -- that is, the technical assistance contract for the PSA component will serve as the obligating document. Individual transactions, discussed below, will not serve as obligations.

Objective

The objective of the PSA activity is to help assure the provision of essential agricultural goods and services to local Afghan markets. This will be accomplished through the identification of basic commodities that will be in short supply in Afghanistan, location of potential suppliers of these goods in Pakistan and facilitation of existing private sector trading networks on both sides of the border. The PSA will make maximim use of the existing Afghan marketing system in order to minimize the need for an expensive donor-sponsored distribution system. The following paragraphs provide details as to how this mechanism will be implemented.

Use of Traditional Marketing Systems

Commodities will come from three sources: Pakistan (source/origin), off shore, and a combination of imported componentry-Pakistani manufactured. Movement of all goods across the border will be managed by private sector wholesalers against orders placed by Afghan traders resident in Afghanistan. These orders are traditionally accompanied by up front payment of a portion or all of the costs of items to be purchased. Foreign exchange transactions (the conversion of Afghanis to Rupees) is handled through the age-old Afghan private exchange system.

Upon request from an Afghan wholesaler/trader, Pakistan based wholesalers will be responsible for contacting manufacturers and distributors within Pakistan, negotiating and paying for goods received, arranging GOP customs clearance and contracting private transport services to move goods into Afghanistan. Payment to the distributors is in cash or, in the case of private fabricators, 30 or 60 day deferred payment arrangements. Export permits (evidencing export to Afghanistan), secured by the wholesalers, will be used by AID and its contractor to verify physical movement of goods into Afghanistan and serve to effect transfer of dollars to the GOP to offset their foreign exchange losses. (Monitoring is discussed later in this document.) This purchase system already exists -- the project will tap into a longstanding operation.

For the most part, it is not anticipated that AID or its contractor will be required to undertake any actual procurement. However, in select instances (such as seeds), AID or its contractor may be required to initiate limited procurement.[1] The potential amount of AID direct procurement is unknown at this time, however, the Mission expects that procurement will remain the primary responsibility of the private sector.

Use of U.S. Dollars

Pakistan currently faces a foreign exchange constraint. Pakistan will incur foreign exchange losses as a result of increased agricultural commodity exports to Afghanistan. The GOP will want to replace agricultural commodities with off shore source/origin commodities (such as fertilizer) exported to Afghanistan in order to maintain sufficient domestic stocks. The Mission is concerned that the expected substantial increase in demand for agricultural commodities on the part of the Afghans may strain existing supplies, especially of imported inputs, in Pakistan. Given potential shortages, the GOP may be unwilling to provide export permits for commodities going to Afghanistan. The replacement of foreign exchange to the GOP is seen as an incentive to encourage the system to work smoothly and allow goods to transship the border. [2]

This "replacement" cost to offset foreign exchange losses would include: dollar/rupee exchanges equal to the foreign exchange costs to Pakistan of goods moving into Afghanistan (i.e., foreign exchange composition of each good). Payments will be made by the Mission to the GOP based on receipt of export permits of goods and a price monitor system (to be implemented under the project's monitoring component). Such permits will confirm the volume of goods moving into Afghanistan.

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[1] New high yielding wheat seeds are not available in Afghanistan and in short supply in Pakistan. To secure the appropriate amounts for transfer into Afghanistan, AID would contract with Pakistani seed producers paying Pakistani wholesalers to move seed to designated locations within Afghanistan. AID would pay wholesalers transport and delivery costs.

[2] AID must confirm whether the GOP will require U.S. dollar reimbursement for foreign exchange costs. It is possible that the GOP may believe that the amounts are so small that they would not wish to initiate a reimbursement scheme. If this is the case, then the dollar budget for commodities and other local costs provided by the project would be disbursed in local currencies only.

As an example of how this foreign exchange mechanism will work, urea is currently purchased with dollars by the GOP on the international market. AID would use the CIF price at Karachi and the volume of urea exported into Afghanistan as the basis for calculating dollar payments to the Bank of Pakistan (BOP) to offset foreign hard currency losses. In another case, 23 per cent of the price for tractors assembled in Pakistan represent off shore dollar payments for the purchase of foreign parts - bearings, crank shafts, etc. AID payments to the BOP would be based on similar procedures as those used for fertilizer. The CIF costs of imported components would be calculated, multiplied times the number of units shipped across the border, and a dollar transfer made by AID to the BOP to offset their losses.

AID dollar transfers would not be payments for specific transactions, rather they would replace hard currency expended by the BOP (or possibly a commercial bank in Pakistan) to facilitate procurement. While management of the dollars will follow normal AID cash management procedures, monitoring the and use of those dollars will not be formally required since the dollars are not a cash transfer. They will be free of any U.S. constraints on use by the GOP. They offset foreign exchange losses incurred by the GOP as they seek to replace exported agricultural inputs with foreign source/origin for their own domestic stocks.

Use and Management of Generated Local Currency

Management - The Pakistani government, presumably through the BOP, would provide rupees to AID equal to the dollar transfer at the current official rupee/dollar exchange rate. Rupees will be GOP-owned and will be placed in a Trust Fund under total AID control. (N.B.: There is no acceptable Afghan "counterpart" with whom to set up a trust fund arrangement.) The principal advantage of a GOP-owned, U.S.-controlled Trust Fund is that rupee funds are kept in the project and do not get confused with U.S.-owned rupees for Pakistan.

AID will negotiate an agreement with the GOP (to be spelled out in an appropriate document) prior to undertaking the initiation of the PSA component. The agreement will stipulate that the Pakistani-owned rupees will be used at the sole discretion of AID or whomever else AID may designate as a manager. Disbursement of rupees will be made against AID approved contractor invoices for uses outlined below.

Use - Trust Fund rupees will be the primary mechanism used to accomplish the project objectives. They will be used to support project-related rupee costs. These will include, *inter alia*, the rupee costs of support for the agricultural

rehabilitation schemes in Afghanistan, transport and subsidy costs incurred by the GOP in moving project-related goods; direct AID purchase of Pakistani commodities related to the project and contractor related rupee expenditures.

Tracking of these rupees will be continual and will be a function of the ASSP's Monitoring, Analysis and Planning unit. Monitoring is discussed in more detail later in this document.

No unexpended Trust Fund Rupees are contemplated at the end of the project. However, in the unlikely event that they are, they would be used to expand development activities within Afghanistan such as a cash for work program or increase the number of planned rehabilitation schemes supported under the project.

Rupee Incentives/Subsidy Costs

GOP Procured Commodities - The GOP will incur rupee costs associated with the movement of goods into Afghanistan. Such costs would include: transport and handling costs associated with moving unprocessed imported goods from Karachi to the border and subsidy costs normally provided to manufacturers and distributors at the time of sale to wholesalers.

An example of how rupee subsidy costs would be incurred follows. For convenience, costs are outlined in dollars but the subsidy would be paid in rupees. We can assume that the CIF cost per ton for urea at Karachi is $215 per ton and movement and in-transit/storage costs from Karachi to Peshawar are approximately $20 per ton. The cost to the GOP of imported urea to Peshawar would, therefore, be $235 per ton. If the GOP sells the fertilizer to wholesalers for $130 per ton (current approximate price), the GOP subsidy equals $85 per ton to end users and $20 a ton to underwrite transport costs. AID would pay the GOP, $105 per ton, i.e., the "subsidy", with wholesalers paying the remaining $130 per ton.

Private Sector Incentives - The procedures described above would be followed only for goods handled by the GOP not goods produced by the private sector. The project assumes that the selling price of the goods by the Pakistani merchant to the Afghan merchant includes distribution and transport costs as well as manufacturer's profit margin. However, there may be reasons for subsidizing distribution costs within Afghanistan (again this is a rupee cost). For example, prices paid by Afghan farmers may be below or equal to the Pakistani wholesale price for a variety of reasons, i.e., the Afghan government provides a higher rate of subsidy.

To encourage Pakistani based wholesalers to handle such commodities, the project may have to provide rupee incentives to wholesalers equal to the difference between the wholesale

purchase price plus profit margin and transport and the lower Afghan market price. AID will determine subsidy levels on a commodity by commodity basis after assessing how important the commodity is to Afghan agricultural reconstruction efforts, projected cost of the subsidy and the impact of the subsidy on the specific Afghan markets in question. Subsidy levels will be determined by monitoring actual prices paid by farmers in selected Afghan markets, Pakistan wholesale market prices for the commodity and transport and handling cost (this is included as part of the project's Monitoring, Analysis and Planning Unit).

Dollars will not subsidize transportation or be provided as incentives.

Monitoring

Effective management of the project will require a continuing flow of information. Therefore, monitoring is considered to be a significant activity of the overall project. A Monitoring, Analysis and Planning Unit (MAP) will collect and analyse data, (farm input/output price data, local food/commodity price data, etc.) and track commodities to confirm arrival in Afghanistan.

The effective use of local currency made available to the project will be tracked in several ways. First disbursement will be made to the contractor(s) based on invoices detailing specific needs -- generally project related. These needs will include contractor costs (e.g., rent, office expenses, in-country travel, etc.), and activity related (e.g., rehabilitation of small-scale infrastructure, salaries for monitors, etc.). Second, local currency will also be used by the Mission (and the contractor) to make actual purchases of essential commodities. Third, tracking of agricultural inputs (project and non-project procured) will be continual if the project is to be successful in assuring the timely availability of inputs to Afghan farmers. The tracking is an essential part of the MAP unit.

Trial Nature of this Mechanism

Prior to the initiation of the PSA component, the AID/Rep will, over the next several months, reach agreement with the GOP on:

1) the per unit foreign exchange costs of goods or component parts that would potentially move into Afghanistan;

2) rupee subsidy pertaining to transportation and handling costs incurred by the GOP in moving government controlled goods to the border; and

3) per unit input rupee subsidies provided by the GOP for goods purchased at the border.

The operational mechanism described herein will be introduced on a trial basis. As needed, minor modifications will be made

by the Mission and contractor. However, prior to an FY 1990 disbursement for this project, the Mission, in conjunction with AID/Washington, will assess the success of the mechanism described and recommend further needed changes. If the model is discovered to be too unwieldly, or indeed, fails to perform as expected, a number of operational options will be identified at that time for the Mission to consider.

Illustrative List of Commodities

Farm Equipment	
Tractors	Motorized Cultivators
Plows and Tillers	Drills
Reapers	Threshers
Wagons	Hand Tools
Horticultural Tools	Wheelbarrows
Sprayers	Spare Parts
Seeds and Planting Materials	
Wheat	Corn
Vegetable	
Fertilizer	
DAP	Urea
Irrigation Equipment	
Pumps	Gabions
Miscellaneous	
Livestock/Farm Animals	
Oxen/Bullocks	Vet Health Products
Poultry Breeding Stock	
Consumer Goods	
Ghee	Burlap Bags
Cloth	
Transport Goods	
Spare Parts	Bicycles

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01  PAGE 01    ISLAMA  01602  01 OF 07  230401Z    73TO 100354  AID087

02  ACTION AID-00
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04  ACTION OFFICE  ANPD-05
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07        SEQS-02  FPA-02  SERP-01  RELO-01  TELE-01  AGRI-01
08        /043 A4  KL23
09       ------------------------------------------------------------

10  INFO  LOG-00   CIAE-00  EB-00    DODE-00  NEA-04   /004 W
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13  FM AMEMBASSY ISLAMABAD
14  TO SECSTATE WASHDC IMMEDIATE 3816
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16  UNCLAS SECTION 01 OF 07 ISLAMABAD 01602
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18  AIDAC FROM AID/REP
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20  AID FOR ANE/AF, ANE/TR/ARD AND ANE/PD
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22  E.O. 12356:  N/A
23  SUBJECT - AFGHANISTAN AGRICULTURE SECTOR SUPPORT
24  PROJECT (ASSP) AAM AMENDMENT
25
26  REF: STATE 010779
27
28  1.  SUMMARY.  MISSION APPRECIATES THE QUICK REVIEW OF
29  SUBJECT PROJECT AMENDMENT.  WE UNDERSTAND THAT THE
30  AFGHANISTAN TASK FORCE IS PREPARED TO RECOMMEND
31  AUTHORIZATION OF THE AGRICULTURE AND RURAL
32  DEVELOPMENT SCHEMES AND THE MONITORING, ANALYSIS AND
33  PLANNING COMPONENTS.  WE FURTHER UNDERSTAND THE TASK
34  FORCE DID NOT RECOMMEND AUTHORIZATION OF THE PRIVATE
35  SECTOR AGRIBUSINESS COMPONENT BECAUSE OPERATIONAL
36  DETAILS WERE NOT FULLY UNDERSTOOD.  THE FOLLOWING IS
37  THE MISSION'S RESPONSE TO REFTEL AND THE QUESTIONS
38  RAISED CONCERNING THE OPERATION OF THE AGRIBUSINESS
39  COMPONENT.  WE REQUEST THAT THE AMENDED AUTHORIZATION
40  BE APPROVED ASAP, SO THAT THE RFP FOR THE NEW
41  CONTRACT CAN BE ISSUED.  END SUMMARY.
42
43  2.  THE FOLLOWING RESPONDS TO SPECIFIC POINTS IN THE
44  ORDER LISTED IN REFTEL:
45
46  A)  AGRICULTURE REHABILITATION SCHEMES (ARS)
47
01  COMPONENT - WITH RESPECT TO IMPACT ON REFUGEES,
02  WASHINGTON IS CORRECT THAT EXISTING ARS'S IN THE EAST
03  AND SOUTH WILL BE MAINTAINED AND EXPANDED.
04  EMPLOYMENT (CASH FOR HIRE) WILL CONTINUE TO BE A
05  MAJOR ELEMENT OF ALL THE AGRICULTURE AND RURAL
06  REHABILITATION ACTIVITIES.  AT PRESENT, THE ASSP
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REPRESENTS THE LARGEST SINGLE DONOR EMPLOYMENT GENERATION ACTIVITY FAR EXCEEDING THE COMBINED ACTIVITIES OF PVOS, NGOS, ETC.

B) THE MONITORING OF THE ARS COMPONENT - MONITORING OF THE ARS IS RECOGNIZED TO BE A SIGNIFICANT RESPONSIBILITY OF THE MISSION AND, THEREFORE, A MAJOR ACTIVITY OF THE OVERALL ASSP.

--MONITORING WITHIN THE ASSP PRESENTLY TAKES PLACE IN THREE DISTINCT AND DIFFERENT WAYS, AND WILL BE CONTINUED BY THE MAP ACTIVITIES IN THE FUTURE.

--THE FIRST FORM OF MONITORING IS UNDERTAKEN WITHIN THE AGRICULTURE RURAL REHABILITATION COMPONENT NOW CONTRACTED TO VITA. VITA HAS AN EFFECTIVE MANAGEMENT INFORMATION SERVICE (MIS) ACTIVITY HEADED BY DR. SARDAR, A UNIVERSITY OF MASSACHUSETTS PH.D. IN POLITICAL SCIENCE WHO WROTE HER DISSERTATION ON AFGHANISTAN. THE PRIMARY OBJECTIVE OF THIS MIS ACTIVITY IS TO PROVIDE SPECIAL ATTENTION TO THE VARIOUS POLITICAL, SOCIOLOGICAL AND ORGANIZATIONAL STRUCTURES EVOLVING OUT OF THE PRESENT AFGHAN SITUATION. THIS REQUIRES MONITORING, BUT MORE IMPORTANTLY, ALSO REQUIRES THE ANALYSIS OF SUCH ASPECTS AS THE FORMATION AND ADMINISTRATIVE ABILITY OF VARIOUS SHURAS (LOCAL COUNCILS) AND ESTIMATING THE ADMINISTRATIVE CAPABILITIES OF SPECIFIC LOCAL COMMANDERS, ETC. THIS TYPE OF SOCIOLOGICAL/POLITICAL ANALYSIS AND MONITORING HAS BEEN IMPORTANT IN THE PAST PROGRAM AND WILL BE EVEN MORE IMPORTANT IN THE FUTURE. THEREFORE, THESE TYPES OF ACTIVITIES WILL CONTINUE IN THE AMENDED AAM. THIS ONGOING COMPONENT ALSO HAS STAFF WHICH INSPECT THE PROGRESS OF ONGOING AND COMPLETED REHABILITATION ACTIVITIES. THIS REPRESENTS PRINCIPALLY A PROGRESS REPORTING PROCESS FOR IMPLEMENTATION PURPOSES AND PROJECT MANAGEMENT.

--SECONDLY, UNDER PRESENT PROJECT ACTIVITIES, THERE IS A TEAM OF 10 STAFF PERSONNEL WHO MONITOR PROJECT ACTIVITIES (I.E., COMMODITIES RECEIVED BY DESIGNATED MERCHANTS, COMMODITIES SOLD FOR AGREED PRICES, STATUS OF REHABILITATION ACTIVITIES, ETC.) THIS STAFF IS ONLY KNOWN TO VITA'S TWO SENIOR AFGHANS AND CHIEF OF PARTY.

--THIRDLY, MONITORING OF FOOD COMMODITIES BETWEEN AGRICULTURE SURPLUS AND FOOD DEFICIT AREAS (ARS LOCATIONS), DELIVERY OF COMMODITIES, ETC. ARE ALL TO BE AN INTEGRAL PART OF THE MONITORING ANALYSIS AND PLANNING COMPONENT. IT IS ANTICIPATED THAT THIS TYPE OF MONITORING WILL BE CONDUCTED: (1) THROUGH OBSERVATIONS AND REPORTS OF AFGHAN FIELD STAFF EMPLOYED IN THE ARS LOCATIONS; (2) THROUGH THE

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GC-01 GCAN-02 GCCM-02 ANTR-06 STAG-02 AAPF-01 SEOP-01
SEOS-02 FPA-02 SERP-01 RELO-01 TELE-01 AGRI-01
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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC IMMEDIATE 3817

UNCLAS SECTION 02 OF 07 ISLAMABAD 01602

AIDAC FROM AID/REP

AID FOR ANE/AF, ANE/TR/ARD AND ANE/PD

E.O. 12356: N/A
SUBJECT - AFGHANISTAN AGRICULTURE SECTOR SUPPORT
PROJECT (ASSP) AAM AMENDMENT

ANALYSIS OF THE MACRO ECONOMIC INDICATORS AS
IDENTIFIED IN THE AMENDMENT; (3) BY MONITORING THE
FLOW OF COOMODITIES TO AND THROUGH AFGHAN AND
PAKISTANI TRADERS; (4) THROUGH UTILIZATION OF
SATELLITE IMAGERY TO ESTIMATE CROP YIELDS IN BOTH
SURPLUS AND DEFICIT PRODUCTION AREAS; AND (5) THROUGH
THE USE OF OTHER TYPES OF MONITORING DEVICES AS
DEVELOPED BY THE CONTRACTOR DURING IMPLEMENTATION.

--WE ARE ALSO IN THE PROCESS OF DEVELOPING FOR THE
OVERALL AFGHAN PROGRAM AN INFORMATION MANAGEMENT
SYSTEM WHICH WILL ENABLE US TO BEGIN TO LOOK ACROSS
PROJECT LINES. WE HAVE A FULL-TIME USPSC
MONITORING/INFORMATION SPECIALIST WORKING IN OUR
PROGRAM OFFICE AND ARE ADVERTISING FOR AFGHAN
ASSISTANTS TO EXPAND OUR CAPABILITIES IN THIS AREA.

--WE ARE KEENLY AWARE OF THE IMPORTANCE OF ACCURATE
MONITORING AND ARE CONFIDENT THAT, EVEN UNDER THE
CURRENT CONDITIONS IN WHICH WE OPERATE, THE ABOVE

MENTIONED ACTIVITIES PROVIDE AN ADEQUATE MONITORING
SYSTEM. OBVIOUSLY, THIS WILL BE IMPROVED AS
CONDITIONS PERMIT, AND WE WILL BE WORKING CLOSELY
WITH OUR CONTRACTORS TO IMPROVE AND EXPAND THE ASSP
MONITORING ACTIVITIES.
C) TRAINING UNDER THE ARS COMPONENT - THE TASK FORCE

07 NOTED STATEMENTS ON PAGE 26 OF THE AAM AMENDMENT
08 WHICH REFERENCED U.S. OR THIRD COUNTRY TRAINING
09 OPPORTUNITIES FOR WHICH A RELATIVELY SMALL AMOUNT OF
10 FUNDING HAS BEEN BUDGETED. THE PROPOSED TRAINING IS
11 TO BE TARGETTED ON AFGHAN UNIVERSITY STUDENTS WHOSE
12 EDUCATION WAS INTERRUPTED BY THE SOVIET INVASION. IT
13 IS PLANNED THAT THE NEW PROJECT CONTRACTOR WILL
14 IDENTIFY UNIVERSITY STUDENTS WHO HAD COMPLETED AT
15 LEAST A YEAR OR TWO OF FORMAL EDUCATION. THE
16 CONTRACTOR WOULD THEN DEVELOP INDIVIDUAL TRAINING
17 PROGRAMS FOR THESE INDIVIDUALS WHICH WOULD BE
18 COMPLETED WITHIN THE LIFE OF PROJECT. SUCH TRAINING
19 COULD TAKE PLACE AT AGRICULTURE UNIVERSITIES IN
20 PAKISTAN, OR THIRD COUNTRY INSTITUTIONS SUCH AS THE
21 UNIVERSITY OF THE PHILIPPINES IN LOS BANOS, AND,
22 PERHAPS, THE U.S. THE PAKISTAN MINISTRY OF EDUCATION
23 HAS INDICATED INTEREST IN ACCEPTING AFGHAN STUDENTS
24 AS FOREIGN STUDENTS IN ITS VARIOUS AGRICULTURE
25 COLLEGES. SOME FORMER AFGHAN UNIVERSITY STUDENTS WHO
26 COULD BENEFIT FROM SUCH TRAINING HAVE ALREADY BEEN
27 IDENTIFIED. WE BELIEVE THAT THIS VERY MODEST
28 TRAINING ELEMENT IS IN ACCORDANCE WITH THE APPROVED
29 TRANSISTION STRATEGY AND SHOULD BE APPROVED.
30
31 D) COORDINATION WITH OTHER DONORS - COORDINATION
32 WITH THE U.N., AS WELL AS OTHER DONORS, HAS BEEN THE
33 SUBJECT OF MANY COMMUNICATIONS TO WASHINGTON. IT IS
34 A MAJOR CONCERN AND ACTIVITY OF OUR OFFICE.
35 SPECIFICALLY IN THE AGRICULTURE SECTOR, THE FOLLOWING
36 ONGOING COORDINATING ACTIVITIES ARE TAKING PLACE:
37
38 --THROUGH THE ENCOURAGEMENT OF THIS OFFICE, THE
39 F.A.O. REPRESENTATIVE HAS ESTABLISHED A WORKING GROUP
40 CONSISTING OF REPRESENTATIVES FROM ALL EMBASSIES WHO
41 ARE SUPPORTING, OR PLAN TO SUPPORT, AGRICULTURE OR
42 RURAL DEVELOPMENT ACTIVITIES IN AFGHANISTAN. THE
43 INITIAL MEETING OF THIS GROUP HAS TAKEN PLACE, AND
44 COVERED PRESENT AND PLANNED ACTIVITIES IN THE SECTOR.
45
46
47 --OUR AGRICULTURE DEVELOPMENT OFFICER HAS ATTENDED
48 MEETINGS WITH THE UNHCR FOCUSING ON AGRICULTURE
49 DEVELOPMENT ACTIVITIES AND WITH THE AGENCY
50 COORDINATING BODY FOR AFGHAN RELIEF (ACBAR)
51 AGRICULTURE SUB-COMMITTEE. AID/REP STAFF IN PESHAWAR
52 AND ASSP CONTRACT STAFF ARE CONTINUOUSLY MEETING WITH
53 VARIOUS ORGANIZATIONS REGARDING CROSS-BORDER
54 AGRICULTURE ACTIVITIES.
55
56 E). PRIVATE SECTOR AGRIBUSINESS COMPONENT - HOW WAS
57 THE AMOUNT OF DOLLARS 33.7 MILLION ARRIVED AT?
58 BASED ON THE EXPERIENCE GAINED TO DATE UNDER THE
59 CURRENT PROJECT IN USING COMMECIAL CHANNELS, AND THEBT
60
61
62

ACTION AID-00

ACTION OFFICE ANPD-05
INFO ANDP-03 ANSA-03 ANAF-04 PPDC-01 ANAA-01 SAST-01 PPPB-02
GC-01 GCAN-02 GCCM-02 ANTR-06 STAG-02 AAPF-01 SEOP-01
SEOS-02 FPA-02 SERP-01 RELO-01 TELE-01 AGRI-01
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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC IMMEDIATE 3818

UNCLAS SECTION 03 OF 07 ISLAMABAD 01602

AIDAC FROM AID/REP

AID FOR ANE/AF, ANE/TR/ARD AND ANE/PD

E.O. 12356: N/A
SUBJECT - AFGHANISTAN AGRICULTURE SECTOR SUPPORT
PROJECT (ASSP) AAM AMENDMENT

POSSIBLE DEMAND FOR AGRICULTURAL COMMODITIES AS
REFUGEES BEGIN TO RETURN AND HOPED FOR STABILITY IS
EVIDENCED OVER INCREASING AREAS OF AFGHANISTAN, THE
AAM REDESIGN TEAM (INCLUDING SEVERAL AID/W
REPRESENTATIVES) USED ITS BEST JUDGMENT IN ARRIVING
AT A FUNDING FIGURE CONSIDERED ADEQUATE. THE
ILLUSTRATIVE AND ESTIMATED EXPENDITURE BUDGET
CONTAINED IN THE AMENDMENT REFLECTS ROUGH PROJECTIONS
OF FUNDING REQUIREMENTS ON AN ANNUAL BASIS.
OBVIOUSLY, UNTIL THIS COMPONENT IS APPROVED AND
TESTED DURING IMPLEMENTATION, WE WILL BE UNCERTAIN AS
TO THE FUNDING WHICH MAY BE REQUIRED. IT MAY BE MORE
OR LESS THAN ESTIMATED IN THE AMENDMENT. THE RESULTS
OF EXPERIENCE WILL, OF COURSE, BE FULLY SHARED WITH
AID/WASHINGTON.

F) HOW WILL THE DOLLARS IN THE PRIVATE SECTOR
AGRIBUSINESS COMPONENT BE DISBURSED? - DOLLARS WILL
BE UTILIZED LARGELY TO OFFSET GOVERNMENT OF PAKISTAN
FOREIGN EXCHANGE COSTS INCURRED IN THE MANUFACTURE OR

IMPORTATION OF COMMODITIES EXPORTED UNDER THE PROGRAM
TO AFGHANISTAN. THE SPECIFIC PROCESS OF
REIMBURSEMENT HAS YET TO BE FINALIZED, BUT
DISCUSSIONS TO DATE WITH GOP OFFICIALS AND
MANUFACTURERS INDICATE THE PROCESS WOULD WORK AS
FOLLOWS:

--THE LEVEL OF FOREIGN EXCHANGE REIMBURSEMENT FOR EACH COMMODITY WILL BE AGREED UPON BY THE AID/REP, THE PAKISTANI MANUFACTURER OR IMPORTER AND THE GOP, MOST LIKELY THE MINISTRY OF FINANCE. THE CONTRACTOR WILL THEN TURN OVER THE AGREED UPON AMOUNT OF FOREIGN EXCHANGE TO THE PAKISTAN STATE BANK, WHICH WILL THEN DEPOSIT AN EQUIVALENT AMOUNT OF PAKISTAN RUPEES IN THE AID/REP CONTRACTOR'S CUSTODIAL ACCOUNT HELD IN A COMMERCIAL BANK. RUPEES WOULD THEN BE AVAILABLE TO PARTIALLY OFFSET LOCAL COSTS OF THIS. AND POSSIBLY OTHER MISSION PROJECTS, AS IS DISCUSSED LATER.

--DOLLARS WILL ALSO BE UTILIZED FOR LOCAL EXPENSES NOT COVERED BY PROJECT-GENERATED RUPEES; THE PROJECT'S TECHNICAL ASSISTANCE CONTRACTS; DIRECT PROCUREMENT OF COMMODITIES MANUFACTURED IN PAKISTAN; POSSIBLE DIRECT IMPORTATION OF COMMODITIES INTO PAKISTAN; ETC. ADDITIONAL DISCUSSION OF DISBURSEMENT OF PROJECT FUNDS IS PRESENTED UNDER SECTION (H), A PROCESS MODEL OF THE PRIVATE SECTOR AGRIBUSINESS.

G) GOP AGREEMENT IN PRINCIPLE TO THE PRIVATE SECTOR AGRIBUSINESS COMPONENT - SINCE THE COMPLETION OF THE AAM AMENDMENT, WE HAVE HAD EXTENSIVE MEETINGS WITH SENIOR GOP OFFICIALS AND GENERAL MANAGERS OF MANUFACTURERS IN PAKISTAN. WORKING CLOSELY WITH USAID/PAKISTAN, A MEETING WAS ARRANGED WITH USAID'S PRIMARY CONTACT IN THE MINISTRY OF FINANCE, THE ADDITIONAL SECRETARY FOR EXTERNAL FINANCE. AT THE MEETING, WE REVIEWED THE GOAL, PURPOSE AND FEATURES OF THE PRIVATE SECTOR AGRIBUSINESS COMPONENT. THE ADDITIONAL SECRETARY SHOWED GREAT INTEREST AND INDICATED THAT NO REPEAT NO MEMORANDUM OF UNDERSTANDING WOULD HAVE TO BE COMPLETED WITH THE GOP. HE INDICATED THAT ALL OF THE AGRICULTURE COMMODITIES (NOTE FOLLOWING LIST) WHICH HAVE BEEN IDENTIFIED TO DATE COULD BE PROCURED FROM MAJOR MANUFACTURERS OR COMPANIES IN PAKISTAN THROUGH A PURCHASING AGREEMENT. THIS PURCHASING AGREEMENT IS A KEY PART OF A WELL ESTABLISHED PROCESS FOR PURCHASING COMMODITIES FOR EXPORT. PAYMENT FOR THESE COMMODITIES CAN BE IN EITHER PAKISTANI RUPEES OR U.S. DOLLARS. THE MANUFACTURERS OR COMPANIES HAVE THE RESPONSIBILITY OF FILING THE PURCHASES AND OTHER REQUIRED DOCUMENTS WITH THE GOP.

THE ADDITIONAL SECRETARY FELT THIS PROCEDURE WORKS EXTREMELY WELL AND EMPHASIZED THAT THERE WAS NO NEED TO HAVE ANY SPECIAL AGREEMENTS FOR THE AID/REP'S PROGRAM.

--DURING A MEETING WITH THE EMBASSY'S ECONOMIC AFFAIRS STAFF, IT WAS RECOMMENDED WE CONSULT WITH THE CHIEF CONTROLLER OF IMPORTS AND EXPORTS OF THE

ACTION AID-00

ACTION OFFICE ANPD-05
INFO ANDP-03 ANSA-03 ANAF-04 PPDC-01 ANAA-01 SAST-01 PPPB-02
GC-01 GCAN-02 GCCM-02 ANTR-06 STAG-02 AAPF-01 SEOP-01
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FM AMEMBASSY ISLAMABAD
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UNCLAS SECTION 04 OF 07 ISLAMABAD 01602

AIDAC FROM AID/REP

AID FOR ANE/AF, ANE/TR/ARD AND ANE/PD

E.O. 12356: N/A
SUBJECT - AFGHANISTAN AGRICULTURE SECTOR SUPPORT
PROJECT (ASSP) AAM AMENDMENT

MINISTRY OF COMMERCE. THE PROPOSED PRIVATE SECTOR AGRIBUSINESS ACTIVITIES AND LIST OF ILLUSTRATIVE COMMODITIES WERE PRESENTED TO THE CHIEF CONTROLLER. HE INDICATED THAT THERE SHOULD BE NO DIFFICULTIES ENCOUNTERED IN PURCHASING THE IDENTIFIED COMMODITIES FOR EXPORT TO AFGHANISTAN.

--WE HAVE ALSO MET WITH THE DEPUTY SECRETARY FOR EXTERNAL TRADE OF THE MINISTRY OF COMMERCE. HE HAD RECEIVED INFORMATION ABOUT THIS PROGRAM FROM THE ECONOMIC AFFAIRS DIVISION (EAD) OF THE MINISTRY OF FINANCE. THE EAD IS THE GOP'S COORDINATING BODY BETWEEN DONOR AGENCIES AND VARIOUS OTHER GOP MINISTRIES. THIS CLEARLY INDICATES THE GOP IS INTERNALLY AWARE OF AND DISCUSSING THE PRIVATE SECTOR AGRIBUSINESS COMPONENT. HE INDICATED THAT THE GOP WOULD SUPPORT AND COOPERATE WITH THE PROJECT WHICH WILL HELP FACILITATE THE RESETTLEMENT OF REFUGEES IN AFGHANISTAN AND EXPAND PAKISTAN'S EXPORTS.

--ADDITIONAL MEETINGS HAVE BEEN HELD WITH THE DEPUTY

DIRECTOR OF THE PAKISTAN EXPORT PROMOTION BUREAU OF THE MINISTRY OF COMMERCE, AND SEVERAL MANAGERS OF MAJOR PAKISTANI FIRMS AND TRADERS SENDING COMMODITIES INTO AFGHANISTAN.

--THE BOTTOM LINE OF ALL THESE MEETINGS IS THAT THERE

IS AN ESTABLISHED PROCESS FOR PROCURING COMMODITIES FROM PAKISTAN FOR EXPORT. THIS PROCESS WOULD REQUIRE NO SPECIAL GOP/AID AGREEMENTS AND THE GOP IS WILLING TO COOPERATE WITH AID/REP TO IMPLEMENT PROGRAMS THAT WILL SUPPORT THE RESETTLEMENT OF REFUGEES AND EXPAND EXPORTS.

THE FOLLOWING IS THE ILLUSTRATIVE LIST OF COMMODITIES PRESENTED TO THE GOP OFFICIALS:

(1) FARM EQUIPMENT: TRACTORS, MOTORIZED CULTIVATORS, PLOWS AND TILLERS, DRILLS, REAPERS, THRESHERS, WAGONS HAND TOOLS, HORTICULTURAL TOOLS, WHEELBARROWS, SPRAYERS, AND SPARE PARTS;
(2) SEED AND PLANTING MATERIALS: WHEAT, CORN AND VEGETABLES SEED AND SEEDLING FRUIT TREES;

(3) FERTILIZER: DAP AND UREA;

(4) IRRIGATION EQUIPMENT: PUMPS, GABIONS AND MISC;

(5) AGRICULTURAL CHEMICALS: INSECTICIDES AND HERBICIDES;

(6) LIVESTOCK/FARM ANIMALS: OXEN/BULLOCKS, POULTRY BREEDING STOCK, AND VETERINARY HEALTH PRODUCTS;

(7) CONSUMER GOODS: BURLAP BAGS AND CLOTH; AND

(8) TRANSPORT GOODS: SPARE PARTS AND BICYLCES.

H) A PROCESS MODEL OF THE PRIVATE SECTOR AGRIBUSINESS COMPONENT - IN THE RFP'S SCOPE OF WORK DRAFTED FOR THIS AMENDMENT, TWO EXAMPLES WERE DEVELOPED TO ILLUSTRATE HOW THE PRIVATE SECTOR AGRIBUSINESS COMPONENT WOULD FUNCTION. THE FIRST EXAMPLE IS FOR COMMODITIES MANUFACTURED IN PAKISTAN. THE SECOND EXAMPLE IS FOR COMMODITIES WHICH ARE IMPORTED INTO PAKISTAN. THESE EXAMPLES ARE PROVIDED BELOW:

(1) EXAMPLE OF COMMODITIES MANUFACTURED IN PAKISTAN (E.G., TRACTORS AND TILLAGE AND OTHER FARM EQUIPMENT): THE CONTRACTOR WILL ASSESS THE MARKET DEMAND AND MARKET STRUCTURE/PROCESS FOR TRACTORS AND TILLAGE AND OTHER FARM EQUIPMENT WITHIN AFGHANISTAN. THIS INFORMATION WILL THEN BE REVIEWED AND ASSESSED WITH EQUIPMENT MANUFACTURERS IN PAKISTAN. BASED ON THIS ASSESSMENT, TARGET QUANTITIES FOR EACH TYPE OF EQUIPMENT TO BE PROVIDED TO THE PROJECT TARGET AREAS THROUGH PRIVATE DEALERS WILL BE RECOMMENDED. A NEW SYSTEM OR THE SYSTEM PILOT TESTED UNDER THE PRESENT PROJECT IS ENVISIONED WHEREBY AFGHANS WHO WISH TO PURCHASE THESE ITEMS FOR CASH CAN CONTACT AFGHAN TRADERS.
--THE CONTRACTOR WILL MEET WITH THE VARIOUS EQUIPMENT

ACTION AID-00

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INFO ANDP-03 ANSA-03 ANAF-04 PPDC-01 ANAA-01 SAST-01 PPPB-02
GC-01 GCAN-02 GCCM-02 ANTR-06 STAG-02 AAPF-01 SEOP-01
SEOS-02 FPA-02 SERP-01 RELO-01 TELE-01 AGRI-01
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UNCLAS SECTION 05 OF 07 ISLAMABAD 01602

AIDAC FROM AID/REP

AID FOR ANE/AF, ANE/TR/AR AND ANE/PD

E.O. 12356: N/A
SUBJECT - AFGHANISTAN AGRICULTURE SECTOR SUPPORT
PROJECT (ASSP) AAM AMENDMENT

MANUFACTURERS IN PAKISTAN TO CONFIRM THE AVAILABILITY
OF EQUIPMENT AND TO ASSURE THAT ALL ARRANGEMENTS ARE
IN PLACE FOR THE SUPPLY OF REQUIRED QUANTITIES -F#F
EQUIPMENT TO AGREED LOCATIONS, PREFERABLY NEAR THE
AFGHANISTAN BORDER.

--THE CONTRACTOR WILL ASSEMBLE AND ANALYZE COST AND
PRICE DATA FOR THE SALES TRANSACTIONS TO THE DEALERS
AND DETERMINE NECESSARY FINANCIAL ARRANGEMENTS.
THESE WILL BE PRESENTED AND EXPLAINED TO THE MISSION
AND WILL BE THE BASIS OF THE AID/REP'S APPROVAL OF
THE PROCEDURES TO BE FOLLOWED.

--IT IS ANTICIPATED THAT THE GOP WILL REQUIRE THAT
THE ASSP MAKE AVAILABLE IN U.S. DOLLARS SOME
PERCENTAGE OF THE VALUE OF THE EQUIPMENT TO COVER THE
FOREIGN EXCHANGE COSTS INVOLVED IN THE MANUFACTURE OF
THE EQUIPMENT. THE RUPEES OBTAINED IN THESE
TRANSACTIONS (MINUS ANY ASSP-SUPPORTED SUBSIDY) WOULD
BE RETAINED FOR USE TO PARTIALLY OFFSET PROJECT LOCAL
CURRENCY EXPENSES OR TO PURCHASE ADDITIONAL

COMMODITIES FOR EXPORT TO AFGHANISTAN, E.G., SEEDS,
OXEN, HAND TOOLS, ETC. THE AMOUNT OF DOLLARS TO BE
CONVERTED WILL BE SUBJECT TO NEGOTIATION BECAUSE OF
SEVERAL FACTORS, ONE OF WHICH IS THE VARYING
PERCENTAGES OF FOREIGN AND DOMESTIC COMPONENTS IN THE

EQUIPMENT.

--THE CONTRACTOR WILL FOLLOW THROUGH WITH THE VARIOUS ADMINISTRATIVE ARRANGEMENTS NECESSARY FOR THE EQUIPMENT MANUFACTURERS AND DEALERS TO OBTAIN EXPORT PERMITS AND ASSIST WITH THE PURCHASING AGREEMENT PROCESS. AFTER OBTAINING AID/REP APPROVAL OF THE PROCEDURES AND COSTS INVOLVED, THE CONTRACTOR WILL COORDINATE AND FACILITATE THE FINALIZATION OF THE ARRANGEMENTS.

--THE CONTRACTOR WILL INVESTIGATE, ANALYZE AND IDENTIFY POTENTIAL OPPORTUNITIES FOR EXPANDING PRIVATE SECTOR TRADE IN FARM EQUIPMENT IN THE TARGET AREAS IN AFGHANISTAN. IT WILL IDENTIFY CONSTRAINTS TO SUCH TRADE SUCH AS LACK OF INFORMATION, LINKAGES FROM THE MANUFACTURERS THROUGH THE TRADERS AND DEALERS AND ON TO THE FARMERS, FINANCE, TRANSPORT, GOVERNMENT REGULATIONS, SECURITY, STORAGE CAPACITY, PRICE AND COST BARRIERS, ETC.

--THE CONTRACTOR WILL WORK WITH AND THROUGH THE PAKISTANI EQUIPMENT MANUFACTURERS TO OBTAIN AGREEMENT TO LINK UP WITH AND COMMISSION DEALERS TO SELL THEIR PRODUCTS IN AFGHANISTAN. IT WILL ENCOURAGE THE ESTABLISHMENT OF EQUIPMENT DEMONSTRATIONS, TRAINING, PROVISION OF SPARES, AFTER SALES MAINTENANCE, AND OTHER SERVICES BY THE EQUIPMENT TRADERS AND DEALERS.

--THE CONTRACTOR WILL PREPARE FOR AID/REP APPROVAL, RECOMMENDATIONS FOR NEEDED PAYMENT OF TRANSPORT OR OTHER SUBSIDY COSTS DETERMINED TO BE NECESSARY TO GET THE EQUIPMENT TO THE TARGET AREAS IN AFGHANISTAN.

--THERE PRESENTLY EXISTS A LIMITED BUT VIABLE CASH TRADE WHICH INCLUDES SUCH HIGH COST ITEMS AS TRACTORS. HOWEVER, TO EXPAND SUCH TRADE, FINANCING WILL BE A MAJOR FACTOR WHICH THE CONTRACTOR WILL BE EXPECTED TO ANALYZE AND RECOMMEND POSSIBLE COURSES OF ACTION.

(2) EXAMPLE OF COMMODITIES IMPORTED INTO PAKISTAN (E.G., FERTILIZER):

--BASED ON MONTHLY ASSESSMENTS OF THE FERTILIZER NEEDS IN THE PROJECT'S TARGET AREAS AS WELL AS AVAILABILITY ON THE LOCAL MARKET, THE CONTRACTOR WILL ATTEMPT TO ASSURE THAT SUPPLY IS AT LEAST THE MINIMUM NECESSARY TO SATISFY DEMAND.

--THE CONTRACTOR WILL MEET WITH THE VARIOUS FERTILIZER MANUFACTURERS OR COMPANIES IN PAKISTAN AND GOP OFFICIALS TO DETERMINE AVAILABILITY, AND ASSURE THAT ALL ARRANGEMENTS ARE IN PLACE FOR THE SUPPLY OF THE REQUIRED QUANTITIES OF UREA AND DAP. IF

ACTION AID-00

ACTION OFFICE ANPD-05
INFO ANDP-03 ANSA-03 ANAF-04 PPDC-01 ANAA-01 SAST-01 PPPB-02
GC-01 GCAN-02 GCCM-02 ANTR-06 STAG-02 AAPF-01 SEOP-01
SEOS-02 FPA-02 SERP-01 RELO-01 TELE-01 AGRI-01
/043 A4 KL23

INFO LOG-00 CIAE-00 EB-00 DODE-00 NEA-04 /004 W
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O 230355Z JAN 89
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC IMMEDIATE 3821

UNCLAS SECTION 06 OF 07 ISLAMABAD 01602

AIDAC FROM AID/REP

AID FOR ANE/AF, ANE/TR/ARD AND ANE/PD

E.O. 12356: N/A
SUBJECT - AFGHANISTAN AGRICULTURE SECTOR SUPPORT
PROJECT (ASSP) AAM AMENDMENT

SUFFICIENT QUANTITIES ARE NOT AVAILABLE IN PAKISTAN, UREA OR DAP MAY HAVE TO BE IMPORTED INTO PAKISTAN BY THE PROJECT. IN THAT EVENTUALITY, THE CONTRACTOR, WITH THE GUIDANCE OF AID, WILL DRAFT THE NECESSARY DOCUMENTATION REQUIRED FOR THE FERTILIZER PURCHASE.
--THE CONTRACTOR WILL ASSEMBLE AND ANALYZE COST AND PRICE DATA FOR THE FERTILIZER TRANSACTIONS AND DETERMINE WHAT FINANCIAL ARRANGEMENTS ARE NECESSARY. IT WILL PRESENT AND EXPLAIN THESE TO THE MISSION AND OBTAIN THE AID/REP'S APPROVAL. IT IS ANTICIPATED THAT, IF PAKISTAN FERTILIZER STOCKS ARE TO BE UTILIZED, THE GOP WILL REQUIRE THAT THE PROJECT MAKE U.S. DOLLAR REIMBURESENTS FOR THE STOCKS DRAWN DOWN BECAUSE: (1) WHILE MUCH OF PAKISTAN'S UREA IS PRODUCED LOCALLY, SIGNIFICANT QUANTITIES ARE IMPORTED TO FILL THE GAP BETWEEN LOCAL PRODUCTION AND UREA USE IN PAKISTAN; AND (2) ALL DAP IS IMPORTED INTO PAKISTAN.

--HOWEVER, THE EXACT AMOUNT OF FOREIGN EXCHANGE TO BE PAID TO THE GOP WILL BE SUBJECT TO NEGOTIATIONS BASED

ON SEVERAL FACTORS, SUCH AS WHETHER THE FERTILIZER IS DOMESTICALLY PRODUCED OR IMPORTED. THE RUPEES OBTAINED THROUGH THESE TRANSACTIONS (MINUS ANY ASSP-SUPPORTED SUBSIDY) WOULD BE RETAINED FOR USE IN THE ASSP AS DESCRIBED IN THE PREVIOUS EXAMPLE.

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--THE CONTRACTOR WILL ASSIST WITH THE ADMINISTRATIVE ARRANGEMENTS NECESSARY FOR THE PAKISTANI FERTILIZER COMPANIES, AND DEALERS TO OBTAIN APPROVAL OF A PURCHASING AGREEMENT. AFTER OBTAINING AID/REP APPROVAL FOR THE PROCEDURES AND COSTS INVOLVED, THE CONTRACTOR WILL COORDINATE AND FACILITATE THE FINALIZATION OF THE ARRANGEMENTS.

--THE CONTRACTOR WILL INVESTIGATE, ANALYZE AND DEFINE POTENTIAL OPPORTUNITIES FOR PRIVATE SECTOR TRADE IN FERTILIZER IN THE PROJECT'S TARGET AREAS IN AFGHANISTAN. IT WILL IDENTIFY CONSTRAINTS TO SUCH TRADE SUCH AS LACK OF INFORMATION, LINKAGES FROM THE MANUFACTURERS THROUGH TRADERS AND DEALERS TO FARMERS. THE CONTRACTOR WILL WORK WITH AND THROUGH THE PAKISTANI FERTILIZER COMPANIES TO OBTAIN AGREEMENT TO LINK UP WITH AND COMMISSION AFGHAN AND PAKISTANI TRADERS AND DEALERS TO SELL THEIR PRODUCTS IN AFGHANISTAN. IT WILL ENCOURAGE THE COMPANIES TO ESTABLISH FERTILIZER STORAGE FACILITIES AND STOCKS IN LOCATIONS SUCH AS PESHAWAR AND QUETTA FOR EASE OF TRANSPORT INTO AFGHANISTAN, AND ENCOURAGE DEALERS TO ESTABLISH FERTILIZER STORAGE AND STOCKS INSIDE AFGHANISTAN. THE CONTRACTOR WILL PREPARE FOR MISSION APPROVAL RECOMMENDATIONS OF NEEDED TRANSPORT OR OTHER SUBSIDY COSTS TO GET THE FERTILIZER TO THE TARGET AREAS IN AFGHANISTAN. IT WILL ARRANGE FOR ON-SITE SPOT CHECKS OF THE ARRIVAL OF GOODS AT THE REPORTED POINTS OF SALE IN THE MANNER AND AT THE PRICES REPORTED BY THE DEALERS. THE CONTRACTOR WILL WORK WITH AGRICULTURAL AND AGRIBUSINESS FIRMS TO CHANNEL APPROPRIATE TECHNICAL INFORMATION TO THE FARMERS.

(I) LOCAL CURRENCY UTILIZATION - GENERATED LOCAL CURRENCY WILL BE PRIMARILY USED TO OFFSET LOCAL COSTS OF THE ASSP PLUS OTHER MISSION PROJECTS IF SUFFICIENT FUNDS ARE AVAILABLE. IF IT IS DEEMED ESSENTIAL TO PROVIDE A COMMODITY WHICH REQUIRES A SUBSIDY, I.E., FERTILIZER, BECAUSE OF THE HIGH SUBSIDIES PROVIDED BY EASTERN BLOC COUNTRIES ON FERTILIZER IN AFGHANISTAN, LOCAL CURRENCIES COULD ALSO BE USED FOR THIS PURPOSE. ADDITIONALLY, LOCAL CURRENCY COULD BE USED TO PURCHASE IN PAKISTAN OTHER TYPES OF NEEDED COMMODITIES SUCH AS OXEN, HANDTOOLS, PLANTING MATERIALS, ETC. WHICH COULD BE MADE AVAILABLE TO FARMERS IN THE ARS'S. THE PROJECT HAS EXPERIENCE AND SUCCESS IN PROVIDING EQUIPMENT SUCH AS TRACTORS, THRESHERS, HARROWS AND WATER PUMPS WITH A SUBSIDY OF APPROXIMATELY 20 PERCENT. THIS TYPE OF SUBSIDY MAY BE NECESSARY TO EXPAND THE MARKET, PARTICULARLY IN THE AREAS WHERE REFUGEES WILL BE RETURNING. THE ASSP ALSO HAS BEEN ABLE TO PURCHASE OXEN AND SHIP THESE ANIMALS INTO SPECIFIC ARS'S WHERE LIVESTOCK AUCTIONS HAVE BEEN HELD AND THE OXEN SOLD TO LOCAL FARMERS. IN THE CASE OF THE OXEN, A SLIGHT

SUBSIDY HAS BEEN PROVIDED TO COVER TRANSPORTATION;

ACTION AID-00

ACTION OFFICE ANPD-05
INFO ANDP-03 ANSA-03 ANAF-04 PPDC-01 ANAA-01 SAST-01 PPPB-02
GC-01 GCAN-02 GCCM-02 ANTR-06 STAG-02 AAPF-01 SEOP-01
SEOS-02 FPA-02 SERP-01 RELO-01 TELE-01 AGRI-01
/043 A4 KL23

INFO LOG-00 CIAE-00 EB-00 DODE-00 NEA-04 /004 W
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FM AMEMBASSY ISLAMABAD
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UNCLAS SECTION 07 OF 07 ISLAMABAD 01602

AIDAC FROM AID/REP

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E.O. 12356: N/A
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AND SMALL DIFFERENCE BETWEEN ACTUAL PURCHASING PRICE
AND SELLING PRICE.

(J) DIRECT PROCUREMENT AS A FALL BACK POSITION -
BECAUSE OF THE DYNAMICS OF THE SITUATION IN
AFGHANISTAN, IT MAY WELL PROVE DIFFICULT FOR THE
PRIVATE SECTOR TO FUNCTION NORMALLY. WITH THE
POTENTIAL OF LARGE NUMBERS OF RETURNING REFUGEES, IT
IS ESSENTIAL THAT THE MISSION HAVE THE FLEXIBILITY TO
DIRECTLY PROCURE COMMODITIES AND MAKE THESE AVAILABLE
TO TARGET AREAS IN AFGHANISTAN. THESE COMMODITIES
MAY RANGE FROM FOOD ITEMS TO STABILIZE LOCAL FOOD
PRICES, TO SEED AND FERTILIZER TO SUPPORT FOOD
PRODUCTION OR CONSTRUCTION MATERIAL FOR THE
RETURNEES. IT IS THE OPTION OF SUCH DIRECT
PROCUREMENTS THAT WE ARE SEEKING IN THE AMENDMENT,
NOT A TRADITIONAL CIP MECHANISM.

3. WE BELIEVE THIS INFORMATION IS SUFFICIENT TO
ADDRESS THE CONCERNS RAISED BY AID/WASHINGTON. WE
REQUEST YOUR REVIEW OF THIS MESSAGE AND FULL

AUTHORIZATION OF THE AMENDMENT, INCLUDING THE PSA
AND, AS NEEDED, DIRECT PROCUREMENT SHOULD
CIRCUMSTANCES REQUIRE.

4. ADVISE. JONES

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NOTES FOR AMENDED ASSP ILLUSTRATIVE BUDGET

I. Agricultural Rehabilitation Schemes (ARS)

These costs are based on VITA experience to date adjusted upward to allow for adding one civil engineer, one agricultural administrator and one agronomist to the Peshawr staff and completing the staffing of at least 15 ARSs' at an average of 14 employees each. The ARS commodity costs are greatly reduced to reflect the planned shift to private sector channels under the new Private Sector Agribusiness (PSA) component.

II. Private Sector Agribusiness (PSA)

Costs for the first year are estimated below. Costs for years 2 and 3 are adjusted upward for inflation, but do not include the initial first year costs of furniture and office equipment.

Salary Plus Travel, Allowances, Overhead and Fee

Home Office Coordinator	130,000
Chief of Party and Head of the PSA Unit	200,000
Agro Marketing Spcl.	180,000
Head - MAP UNit	180,000
Planning Spcl.	180,000
Senior Agricultural Planner	180,000
10 months ST @ $20,000/mo	200,000
21 LT Professionals @ $10,000/yr	210,000
10 LT Clerical Employees @ $5,000/yr	50,000
10 Drivers and Admin @ $3,000/yr	20,000
Total	1,940,000

Logistical Support

Furniture and Equipment	120,000
Rent, Utilities, Communications, Etc.	150,000

Other Commodities

While initially the emphasis will be on fertilizer, farm equipment, and wheat seeds, an illustrative list of commodities will include: seedlings and other planting materials, building and construction materials, and livestock and farm animals.

Agricultural Sector Support Project (ASSP)

DETAILS OF PRIVATE SECTOR AGRIBUSINESS COMPONENT

Introduction

Annex I provides additional clarification to Part III. B.2. of the AAM Amendment document. The focus of this annex is to describe the operational mechanism guiding the Private Sector Agribusiness (PSA) component of the ASSP. Included is a discussion of the traditional marketing system, physical flow of commodities, use and management of both U.S. dollars and generated local currency, and monitoring involved in the undertaking of this particular activity.

Dollars will be used to offset foreign exchange losses incurred by the Government of Pakistan (GOP) as a result of increased export of various agricultural commodities to Afghanistan. Local currency will be the primary mechanism to accomplish the project objectives -- namely to help restore agricultural productivity through small-scale agricultural rehabilitation. Local currency will be used to finance the implementatition of existing and new project activities inside Afghanistan, thereby targetting assistance directly to war-affected Afghans. A brief summary of the PSA described in the AAM Amendment is presented below.

Summary

The purpose of the PSA component is to increase the flow of agricultural and rural development inputs to Afghan farmers in order to:

- o increase agricultural productivity to enable refugees and displaced persons to sustain themselves and become resettled in Afghanistan, and
- o strengthen economic and commercial ties between Pakistan and Afghanistan.

The PSA activity will work through the existing Afghan and Pakistani private sectors -- commercial channels have remained open throughout the war effort, although the majority of transactions have been "underground" -- in order to export agricultural and rural development goods produced primarily in Pakistan. Items to be initially included are agricultural inputs, machinery and building supplies. (An illustrative list of commodities to be procured is provided at the end of this document.) This effort will reflect an expanded use of the existing trading networks -- based upon the understanding that sufficient liquidity exists among at least a significant portion of Afghan farmers given the continued demand for certain agricultural inputs throughout the war. This demand is expected to increase as the war winds down and as refugees begin their journey back to their rural homes.

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It should be noted that funds for this component will be obligated unilaterally -- that is, the technical assistance contract for the PSA component will serve as the obligating document. Individual transactions, discussed below, will not serve as obligations.

Objective

The objective of the PSA activity is to help assure the provision of essential agricultural goods and services to local Afghan markets. This will be accomplished through the identification of basic commodities that will be in short supply in Afghanistan, location of potential suppliers of these goods in Pakistan and facilitation of existing private sector trading networks on both sides of the border. The PSA will make maximim use of the existing Afghan marketing system in order to minimize the need for an expensive donor-sponsored distribution system. The following paragraphs provide details as to how this mechanism will be implemented.

Use of Traditional Marketing Systems

Commodities will come from three sources: Pakistan (source/origin), off shore, and a combination of imported componentry-Pakistani manufactured. Movement of all goods across the border will be managed by private sector wholesalers against orders placed by Afghan traders resident in Afghanistan. These orders are traditionally accompanied by up front payment of a portion or all of the costs of items to be purchased. Foreign exchange transactions (the conversion of Afghanis to Rupees) is handled through the age-old Afghan private exchange system.

Upon request from an Afghan wholesaler/trader, Pakistan based wholesalers will be responsible for contacting manufacturers and distributors within Pakistan, negotiating and paying for goods received, arranging GOP customs clearance and contracting private transport services to move goods into Afghanistan. Payment to the distributors is in cash or, in the case of private fabricators, 30 or 60 day deferred payment arrangements. Export permits (evidencing export to Afghanistan), secured by the wholesalers, will be used by AID and its contractor to verify physical movement of goods into Afghanistan and serve to effect transfer of dollars to the GOP to offset their foreign exchange losses. (Monitoring is discussed later in this document.) This purchase system already exists -- the project will tap into a longstanding operation.

For the most part, it is not anticipated that AID or its contractor will be required to undertake any actual procurement. However, in select instances (such as seeds), AID or its contractor may be required to initiate limited procurement.[1] The potential amount of AID direct procurement is unknown at this time, however, the Mission expects that procurement will remain the primary responsibility of the private sector.

Use of U.S. Dollars

Pakistan currently faces a foreign exchange constraint. Pakistan will incur foreign exchange losses as a result of increased agricultural commodity exports to Afghanistan. The GOP will want to replace agricultural commodities with off shore source/origin commodities (such as fertilizer) exported to Afghanistan in order to maintain sufficient domestic stocks. The Mission is concerned that the expected substantial increase in demand for agricultural commodities on the part of the Afghans may strain existing supplies, especially of imported inputs, in Pakistan. Given potential shortages, the GOP may be unwilling to provide export permits for commodities going to Afghanistan. The provision of dollars to the GOP is seen as an incentive to encourage the system to work smoothly and allow goods to transship the border.[2]

This "replacement" cost to offset foreign exchange losses would include: dollar/rupee exchanges equal to the foreign exchange costs to Pakistan of goods moving into Afghanistan (i.e., foreign exchange composition of each good). Payments will be made by the Mission to the GOP based on receipt of export permits of goods and a price monitor system (to be implemented under the project's monitoring component). Such permits will confirm the volume of goods moving into Afghanistan.

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[1] New high yielding wheat seeds are not available in Afghanistan and in short supply in Pakistan. To secure the appropriate amounts for transfer into Afghanistan, AID would contract with Pakistani seed producers paying Pakistani wholesalers to move seed to designated locations within Afghanistan. AID would pay wholesalers transport and delivery costs.

[2] AID must confirm whether the GOP will require U.S. dollar reimbursement for foreign exchange costs. It is possible that the GOP may believe that the amounts are so small that they would not wish to initiate a reimbursement scheme. If this is the case, then the dollar budget for commodities and other local costs provided by the project would be disbursed in local currencies only.

As an example of how this foreign exchange mechanism will work, urea is currently purchased with dollars by the GOP on the international market. AID would use the CIF price at Karachi and the volume of urea exported into Afghanistan as the basis for calculating dollar payments to the Bank of Pakistan (BOP) to offset foreign hard currency losses. In another case, 23 per cent of the price for tractors assembled in Pakistan represent off shore dollar payments for the purchase of foreign parts - bearings, crank shafts, etc. AID payments to the BOP would be based on similar procedures as those used for fertilizer. The CIF costs of imported components would be calculated, multiplied times the number of units shipped across the border, and a dollar transfer made by AID to the BOP to offset their losses.

AID dollar transfers would not be payments for specific transactions, rather they would replace hard currency expended by the BOP (or possibly a commercial bank in Pakistan) to facilitate procurement. While management of the dollars will follow normal AID cash management procedures, monitoring the and use of those dollars will not be formally required since the dollars are not a cash transfer. They will be free of any U.S. constraints on use by the GOP. They offset foreign exchange losses incurred by the GOP as they seek to replace exported agricultural inputs with foreign source/origin for their own domestic stocks.

Use and Management of Generated Local Currency

Management - A Pakistani bank, presumably the BOP, would provide rupees to AID equal to the dollar transfer at the current official rupee/dollar exchange rate. Rupees will be GOP-owned and will be placed in a Trust Fund under total AID control. (N.B.: There is no acceptable Afghan "counterpart" with whom to set up a trust fund arrangement.) The principal advantage of a GOP-owned, U.S.-controlled Trust Fund is that rupee funds are kept in the project and do not get confused with U.S.-owned rupees for Pakistan.

AID will negotiate an agreement with the GOP (to be spelled out in an appropriate document) prior to undertaking the initiation of the PSA component. The agreement will stipulate that the Pakistani-owned rupees will be used at the sole discretion of AID or whomever else AID may designate as a manager. Disbursement of rupees will be made against AID approved contractor invoices for uses outlined below.

Use - Trust Fund rupees will be the primary mechanism used to accomplish the project objectives. They will be used to support project-related rupee costs. These will include, *inter alia*, the rupee costs of support for the agricultural

rehabilitation schemes in Afghanistan, transport and subsidy costs incurred by the GOP in moving project-related goods; direct AID purchase of Pakistani commodities related to the project and contractor related rupee expenditures.

Tracking of these rupees will be continual and will be a function of the ASSP's Monitoring, Analysis and Planning unit. Monitoring is discussed in more detail later in this document.

No unexpended Trust Fund Rupees are contemplated at the end of the project. However, in the unlikely event that they are, they would be used to expand development activities within Afghanistan such as a cash for work program or increase the number of planned rehabilitation schemes supported under the project.

Rupee Incentives/Subsidy Costs

GOP Procured Commodities - The GOP will incur rupee costs associated with the movement of goods into Afghanistan. Such costs would include: transport and handling costs associated with moving unprocessed imported goods from Karachi to the border and subsidy costs normally provided to manufacturers and distributors at the time of sale to wholesalers.

An example of how rupee subsidy costs would be incurred follows. For convenience, costs are outlined in dollars but the subsidy would be paid in rupees. We can assume that the CIF cost per ton for urea at Karachi is $215 per ton and movement and in-transit/storage costs from Karachi to Peshawar are approximately $20 per ton. The cost to the GOP of imported urea to Peshawar would, therefore, be $235 per ton. If the GOP sells the fertilizer to wholesalers for $130 per ton (current approximate price), the GOP subsidy equals $85 per ton to end users and $20 a ton to underwrite transport costs. AID would pay the GOP, $105 per ton, i.e., the "subsidy", with wholesalers paying the remaining $130 per ton.

Private Sector Incentives - The procedures described above would be followed only for goods handled by the GOP not goods produced by the private sector. The project assumes that the selling price of the goods by the Pakistani merchant to the Afghan merchant includes distribution and transport costs as well as manufacturer's profit margin. However, there may be reasons for subsidizing distribution costs within Afghanistan (again this is a rupee cost). For example, prices paid by Afghan farmers may be below or equal to the Pakistani wholesale price for a variety of reasons, i.e., the Afghan government provides a higher rate of subsidy.

To encourage Pakistani based wholesalers to handle such commodities, the project may have to provide rupee incentives to wholesalers equal to the difference between the wholesale

purchase price plus profit margin and transport and the lower Afghan market price. AID will determine subsidy levels on a commodity by commodity basis after assessing how important the commodity is to Afghan agricultural reconstruction efforts, projected cost of the subsidy and the impact of the subsidy on the specific Afghan markets in question. Subsidy levels will be determined by monitoring actual prices paid by farmers in selected Afghan markets, Pakistan wholesale market prices for the commodity and transport and handling cost (this is included as part of the project's Monitoring, Analysis and Planning Unit).

Dollars will not subsidize transportation or be provided as incentives.

Monitoring

Effective management of the project will require a continuing flow of information. Therefore, monitoring is considered to be a significant activity of the overall project. A Monitoring, Analysis and Planning Unit (MAP) will collect and analyse data, (farm input/output price data, local food/commodity price data, etc.) and track commodities to confirm arrival in Afghanistan.

The effective use of local currency made available to the project will be tracked in several ways. First disbursement will be made to the contractor(s) based on invoices detailing specific needs -- generally project related. These needs will include contractor costs (e.g., rent, office expenses, in-country travel, etc.), and activity related (e.g., rehabilitation of small-scale infrastructure, salaries for monitors, etc.). Second, local currency will also be used by the Mission (and the contractor) to make actual purchases of essential commodities. Third, tracking of agricultural inputs (project and non-project procured) will be continual if the project is to be successful in assuring the timely availability of inputs to Afghan farmers. The tracking is an essential part of the MAP unit.

Trial Nature of this Mechanism

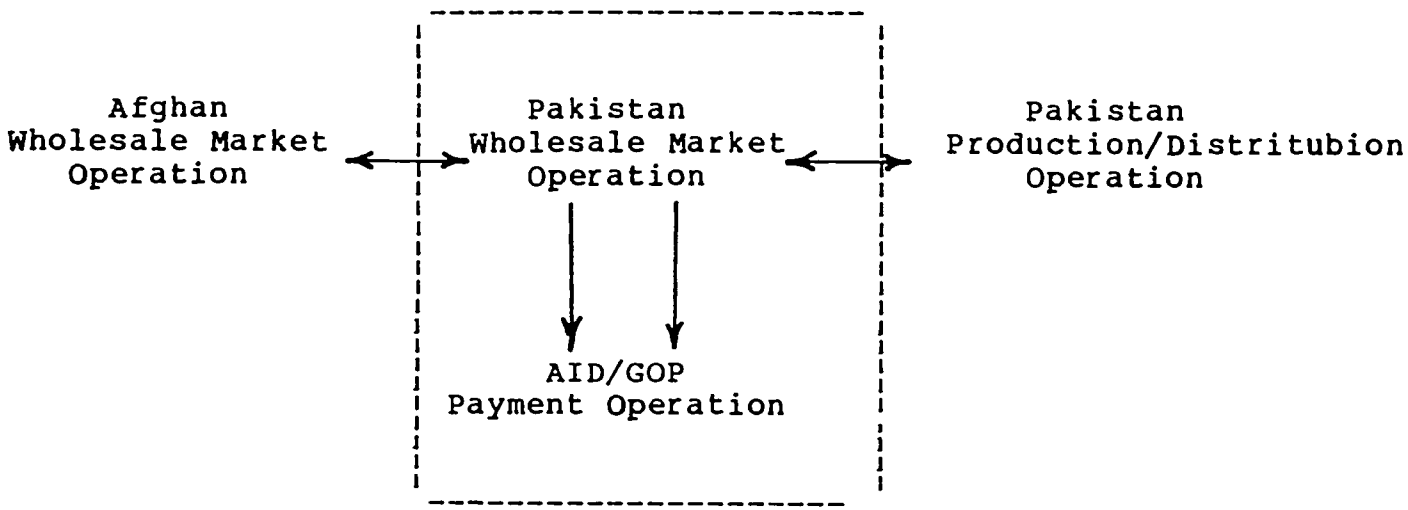
Prior to the initiation of the PSA component, the AID/Rep will, over the next several months, reach agreement with the GOP on:

1) the per unit foreign exchange costs of goods or component parts that would potentially move into Afghanistan;

2) rupee subsidy pertaining to transportation and handling costs incurred by the GOP in moving government controlled goods to the border; and

3) per unit input rupee subsidies provided by the GOP for goods purchased at the border.

The operational mechanism described herein will be introduced on a trial basis. As needed, minor modifications will be made

by the Mission and contractor. However, prior to an FY 1990 disbursement for this project, the Mission, in conjunction with AID/Washington, will assess the success of the mechanism described and recommend further needed changes. If the model is discovered to be too unwieldly, or indeed, fails to perform as expected, a number of operational options will be identified at that time for the Mission to consider.

COMPONENTS OF THE AFGHANISTAN COMMODITY PROGRAM