U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE FOR THE AID REPRESENTATIVE
FOR AFGHANISTAN AFFAIRS

FOOD ASSISTANCE FRAMEWORK

AND

FY 1991 PROPOSAL
Table of Contents

A. General Background and History
   1. Program Statistics
   2. Programmatic Context of Title II Food Aid
   3. Background to the Bilateral Program
      a. Direct Distribution
      b. CARE Food-for-Work Programs
      c. Commercial Sales of PL 480 Commodities
      d. Emergency Feeding
   5. Relationships with the Afghan Resistance
   6. Multi-lateral Programs using PL 480 Wheat
      a. Northern Winter Appeal Program
      b. Cross-border Feeding Program
      c. Refugee Return

B. Analysis
   1. Assumptions Underlying a Revised Food Assistance Plan
      a. Political
      b. Economic
         (1) Crop Production -- Food Supply
         (2) Population -- Food Demand
         (3) Food Grain Balance and Trade
         (4) Wheat Prices
         (5) Other Donors
   2. Food Aid Objectives
      a. Discussion
      b. Background
      c. Operating Assumptions for Food Aid
      d. Continuing Objectives
   3. Modalities of Food Assistance
      a. Food/Cash-for-work
         (1) Justification
         (2) Current Status
         (3) Perceived Problems
         (4) Proposed Solution
         (a) CARE
         (b) Save the Children Federation
         (c) Other NGO's/PVO's
      b. Commercial Sales
         (1) Justification
         (a) Guiding Principles
         (b) Operating Assumptions
         (2) Current Status
         (3) Received Problems
         (4) Proposed Solution
      c. Direct Distribution
      d. Emergency Feeding
      e. School Feeding and MCH-related PL 480 program Options
4. Institutional Analysis
   a. GOP
      (1) Ministry of Foreign Affairs
      (2) Office of the Chief Coordinator (CCAR)
      (3) ISI
   b. NGO's/PVO's
   c. Contractors
      (1) RONCO
      (2) DAI
      (3) CCSC/ACLU
   d. O/AID/Rep
   e. International Organizations
   f. Afghan Resistance

C. Conclusions of the Food Aid Analysis
   1. Justifications
      a. Justification Based on Consumption Needs
      b. Justification Based on Refugee Repatriation Expectations
      c. Justification Based on Reconstruction Needs
   2. Proposed Food Aid Program for FY 1991
      a. Food/Cash-for-Work
      b. Emergency Feeding
      c. Commercial Sales
      d. Maternal Child Health (MCH) in School Feeding
   3. PL 480 Commodities and Program Support Required in FY 1991
      a. Commodities
      b. Commodity Transportation
      c. Transportation Grant Requirement
         (1) Wheat
         (2) Vegoil
         (3) Total Transport Grant Requested
   4. Possible Disincentives to Local Wheat Production
      a. Food/Cash-for-Work
      b. Commercial Sales
   5. Monitoring Requirements
      a. Food/Cash-for-Work
      b. Commercial Sales
      c. Emergency Feeding
   6. Risk Analysis

D. Program Issues

Appendix
Executive Summary

The Mission anticipates that Afghanistan will experience a wheat shortfall of at least 200,000 MT during 1991. Until and unless agricultural production is restored, we predict serious food grain shortages over the next three years. Over the past decade the USSR supplied the Kabul regime with as much as 400,000 MT of wheat per annum. Given the current food deficit situation in the Soviet Union, it seems unreasonable to assume that Soviet policy makers will risk starving their own citizens in order to be able to send wheat to Afghanistan in 1991. With the Soviet wheat contribution falling away, this leaves the entire import requirement to be met by food aid and "unofficial imports" (smuggling) from Pakistan. Unofficial imports from Pakistan and even some "official" ISI imports are likely to be down as well, due to Pakistan's deteriorating economic situation.

From the beginning of the U.S. involvement in Afghanistan there have been two major goals. The first was to get the Soviets out of Afghanistan. This was accomplished with the Soviet withdrawal completed in February 1989. The second was to contribute to conditions which would allow the refugees to return home. This part of the job is still far from finished, and it is to this end that the USG has directed the major part of its efforts -- including the food aid program -- in Afghanistan.

U.S. activities in pursuit of the goal of returning refugees has had two elements, military assistance and political support to the Afghan resistance and humanitarian assistance to those living in the liberated areas of Afghanistan. This latter activity, in which USAID is the major U.S. participant, in turn has two subobjectives. The first has been to provide sustenance to individuals located in the freed areas and who have been disadvantaged by the conflict. The second has been to provide incentives and make conditions conducive for the return of the refugees, and to provide the basic building blocks on which a future unified Afghanistan can reconstruct a viable economy.

A core objective of A.I.D.'s relief and rehabilitation strategy is to reestablish food security for Afghanistan. The priority emphasis will continue to be on restoring agricultural -- and especially food grain -- production capacity. The food aid contribution to this end will be accomplished by:

- expanding options for increased access to food, with specific emphasis on food-for-work and commercial sales;

- using food resources to support rehabilitation and reconstruction of rural infrastructure, using both U.S. and Afghan PVOs;
using wheat sales proceeds for a cash component of food-for-work activities, and to defray the costs of other food aid-related activities;

- ensuring that adequate emergency relief wheat stocks are available to food deficit areas in liberated territories, accessible to distribution from Pakistan;

- using food resources in support of refugee repatriation, in line with humanitarian objectives; and

- expanding program options and mechanisms and continuing to make qualitative improvements in program implementation.

There are three broad justifications for additional food aid: consumption needs, repatriation expectations and rehabilitation/reconstruction requirements:

Consumption Needs:

Wheat continues to be the most important single food commodity for Afghanistan. The mission estimates that a shortfall of at least 200,000 MT of wheat will have to be filled by donors and "unofficial trade" in 1991. There are clear indications that consumption needs in Afghanistan will continue to increase and that donor wheat contributions -- particularly from the Soviet Union -- will sharply diminish in 1991.

Repatriation Expectations:

As of December 1990, most Afghan observers agree that the climate for a negotiated politico-military settlement is more favorable than ever before and that positive developments in the next few months could spark a substantial refugee return by the spring and summer of 1991.

Rehabilitation/Reconstruction Requirements:

The magnitude of war-related destruction inside Afghanistan is enormous. In the agriculture sector, from which over 85 percent of Afghans derive their livelihood, physical destruction and neglect will require years of reconstruction and repair. The Mission is convinced that the bulk of the PL 480 commodities should be used to facilitate the self-help reconstruction process in rural areas. Afghans can and will effectively utilize food aid as a partial wage in the reconstruction process, thereby creating conditions for renewed economic activity as well as refugee and displaced persons' resettlement.
The Mission's experience with food aid to Afghanistan to date shows that it is advantageous to have a number of program options in order to effectively respond to varying food aid needs inside Afghanistan. This experience, coupled with evolving needs, has led to a major revision in the Mission's program for FY 1991 and outyears. We have terminated the large but controversial direct distribution component and will focus instead on a three-pronged, more targeted approach: food/cash-for-work, commercial sales, and emergency feeding. These components will permit the USG to respond to a number of identified needs of the Afghan situation.

Food/cash-for-work and commercial sales were successful components of the 1989/1990 food aid program, and will continue in expanded formats. The new emergency feeding component, will enable us to selectively respond to unanticipated food needs, either as a result of political events or natural and man-made causes. The Mission has programmed a relatively small amount of PL 480 wheat in order to respond to these emergency situations on a case by case basis.

Although food/cash-for-work for rural agricultural infrastructure is the centerpiece of the 1991 program, this will largely be made possible as a result of proposed monetization of 40,000 MT of wheat and 2,000 MT of vegoil. The commercial commodity sales provide critically needed foodstuffs to Afghanistan which will experience a large wheat shortfall in 1991. The local currency sales proceeds in turn provide the cash element for the successful implementation of the food/cash-for-work activities such as: payment of a partial cash wage; paying for local purchases of construction materials; and meeting the costs of transporting food and materials to activity sites. In addition, commercial commodity sales proceeds will finance transportation costs of emergency wheat shipments to destinations inside Afghanistan when the Mission responds to temporary local food shortages as they arise. A side benefit of this activity is the strengthening of private commercial activity in Afghanistan.

Food/Cash-for-Work:

The Mission has successfully implemented an expanding CARE food-for-work rural reconstruction program since 1989. Programs of this nature have a positive effect on the overall goal of improving food security. In 1991 top priority will be given to expanding these programs through CARE and Save The Children Federation in the logistically accessible eastern and southern provinces where many refugees will ultimately return. In addition, the Mission will initiate small food-for-work activities through selected Afghan NGOs/PVOs in more distant provinces. As well as restoring agricultural infrastructure, these programs will motivate the return of refugees by providing wage employment during the early period of their return.

iii
Emergency Feeding:

We believe that food-deficit situations inside Afghanistan will continue to occur as a result of a variety of causes. It is in the interest of the USG to be able to respond to these situations quickly. The Mission proposes to allocate 2,500 MT of wheat to this program element. Should circumstances require, this element of the program can be expanded.

Commercial Sales:

A great advantage of commercial food sales in a food-deficit country, is that the disincentive-to-production issue does not arise because wheat goes through Afghan commercial channels, is traded and sold at market prices, and will find its way to destinations where traders can maximize profits and minimize risk. Given a projected country-wide wheat deficit of at least 200,000 MT, 40,000 MT of monetized wheat will not constitute a disincentive to local wheat production. There are no disincentives with regard to domestic vegetable production either, as cooking oil and ghee consumed in Afghanistan are all imported. There exists as yet no edible oil extraction capability in the country.

In 1991, a total of 52,000 MT of wheat and 2,000 MT of vegetable oil are requested for these integrated components as follows:

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>WHEAT (MT)</th>
<th>VEGOIL (MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food-for-work</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CARE</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Save The Children</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Afghan PVOS/NGOs</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Direct Distribution</td>
<td>-0-</td>
<td></td>
</tr>
<tr>
<td>Emergency Feeding</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Commercial Sales</td>
<td>20,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Monetization for Program Activities</td>
<td>20,000</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>52,000</strong></td>
<td><strong>2,000</strong></td>
</tr>
</tbody>
</table>

The Mission, however, intends to retain flexibility within the overall totals in order to respond to priority needs when these arise and make internal adjustments as the evolving situation requires and warrants.

In addition, and in order to move these PL 480 Title II foodstuffs from the port of Karachi to Pakistan locations near the border with Afghanistan, a surface transport grant of $3,286,000 is also requested.
A. General Background and History

AFGHANISTAN PL 480 TITLE II PROGRAM
(Afghan Emergency Relief Program)

1. Program Statistics

PACD: N/A
AUTHORIZED:
9/14/86 (original)
9/4/88
6/12/89

LOP FUNDING: N/A
OBLIGATIONS:
1986 $3,560,000
1987 $4,094,000
1988 $18,000,000
1989 $59,144,000

2. Programmatic Context of Title II Food Aid

The goal of the cross-border humanitarian assistance program is to make a continuing contribution to relieving the plight of war-affected Afghans. A core objective of A.I.D.'s relief and rehabilitation strategy is to reestablish food security for Afghanistan. The food aid contribution to these ends will be accomplished by:

-- ensuring that emergency food stocks are available to food deficit areas in liberated territories accessible to distribution from Pakistan;

-- continuing to made qualitative improvements in program implementation;

-- using food resources as a tool to support repatriation efforts in line with humanitarian objectives;

-- expanding options for food access, with specific emphasis on food-for-work and commercial sales; and,

-- using food resources to support local reconstruction efforts.

The Title II program was authorized by FY 1986, and began making wheat deliveries cross-border into Afghanistan in February, 1987. Deliveries through October, 1990, of nearly 200,000 metric tons of wheat were made through the Seven Party Alliance and later the AIG direct distribution program. After the Soviet troop withdrawal in February 1989, the focus of food distribution began to shift from party allocations towards the targeting of multi-party shuras.
The Title II program rests on the following principles:

-- The program has important political objectives, but its primary purpose is humanitarian; and,

-- A.I.D.'s role in emergency feeding should be terminated as soon as conditions permit; over the medium and longer-term, major food programs should be handled by international donors.

3. Background to the Bilateral Program

The Governments of Pakistan and the United States have cooperated for nearly four years to provide humanitarian emergency food relief for war-affected Afghans. Since program implementation began in February 1987, nearly 200,000 metric tons (MT) of PL 480 wheat have been delivered inside Afghanistan. At the monthly feeding rate of 12.5 Kg/person this amount fed roughly 341,800 people for the period February 1987 - July 1990. Both governments considered the availability of wheat in Afghanistan for humanitarian purposes to be of high political importance during this period.

During the first two years the program focused on getting food into Afghanistan and ensuring that it did not come back to Pakistan. This was done through the resistance parties, virtually the only organizations with the capacity to transport the food under wartime conditions. Following the withdrawal of the Soviet troops in February of 1989, increasing emphasis was placed on programming, accountability and diversification of delivery systems. The continued supply of PL 480 wheat was made conditional to strengthening the monitoring the accountability, and developing food-for-work and commercial sales activities in addition to the direct distribution program.

The Senate Appropriations Committee, on September 14, 1989, urged A.I.D. to "make a more active effort to ensure that the U.S. cross-border aid programs are clearly identified with the U.S. Government". The Committee recommended that A.I.D. find ways to "directly monitor and evaluate the effectiveness of cross-border relief programs in Afghanistan". This guidance, which still stands, specifically impacts on our planning and monitoring end-use of USG donated commodities. It was communicated to the Government of Pakistan and to the Afghan Interim Government by official letters from the Ambassador. Language used in preparing and amending PL 480 Agreements also took this guidance into account. Since these guidelines were issued, AID/Washington and the Mission have imposed even tighter controls than the Congress has requested. Monitoring the cross-border Title II program has always been difficult; a system that operates under Afghanistan's unique conditions will not be able to provide the monitoring rigor possible under a more advantageous environment. In particular,
the prohibition on travel inside Afghanistan by A.I.D.'s U.S. citizen staff, places a serious constraint on effective monitoring. USG understanding of what is happening to the food program could be significantly enhanced if A.I.D. American staff and/or contractors were permitted to make -- on a selective basis -- visits at least into secure nearby provinces of Afghanistan. While analyzing the merits of the current travel policy is beyond the scope of this document, no monitoring system can provide the reliability of observation "with one's own eyes."

Afghanistan's domestic wheat crop for the 1988/89 crop year was estimated at about 1.8 million metric tons, while the 1989/90 crop was estimated to be slightly above 1.9 million metric tons. Most analysts concludes that Afghanistan has been marginally able to stave off famine, but only through heavy dependence on unofficial flows of subsidized wheat from Pakistan, and donated wheat from the UN, US and the USSR to supplement domestic production.


a. Direct Distribution: In January 1990, at our direction, the Afghan Interim Government (AIG) formed two Food Committees (Quetta and Peshawar), ostensibly to deal with planning the distribution of PL 480 wheat and Commodity Export Program (CEP) bulk food commodities. The committees' attempts to plan and distribute food have been only marginally successful, and, in the Mission's judgment, inadequate to satisfy our targeting and accountability concerns. Since the program restarted in April, 1990, food offtakes have been very low because of logistics and transportation difficulties. Several convoys have been hijacked, and although 70 percent of the food involved has been returned, this has resulted in some food not reaching intended beneficiaries. At present, food shipments to Kunar (with the exception of CARE's food-for-work program) and Paktia provinces are suspended because of diversions. There have also been differences with the AIG Food Committees in Quetta and Peshawar with respect to targeting PL 480 wheat for returned refugees.

For these reasons, the Mission terminated the direct distribution component on November 26, 1990, and will increasingly emphasize the food-for-work and commercial sales components of the program, while supporting emergency feeding necessitated by the liberation of areas such as Tarin-Kot, the provincial capital of Uruzgan, and whatever serious food deficits may develop among civilians in Afghanistan's rural areas, including returning refugees.

b. CARE Food-for-Work Programs: CARE's food-for-work activities began in January 1990 in Kunar Province. The focus of these activities is on facilitating refugee repatriation. Rural works projects included in the program include roads, irrigation canal repairs, terracing of farmers' fields, repair of public dwellings, and construction of food stores. All construction areas are
demined prior to the commencement of work. A 14 kilometer road from Assadabad to the Pakistani border, which will facilitate refugee return, is complete.

Because the Mission has phased out of direct distribution and more emphasis will be given to food-for-work programs, the CARE program is being expanded during 1990/91 to include activities in Paktika province. CARE’s pilot program with 30,000 beneficiaries is expanding to one which will have 114,000 in two provinces. Approximately 10,000 MT of PL 480 wheat was made available for programming under a $1.3 million cooperative agreement, signed with CARE in July, 1990. It is expected that the wheat will be completely drawn down by June, 1991.

c. Commercial Sales of PL 480 Commodities: Selling wheat to merchants and sending it across the border into Afghanistan is a new program component. The AIG and the GOP are reluctant because control of the wheat is in the hands of the buyers. In spite of the fact that prior agreement on a pilot commercial sales was reached for the FY 1989 Transfer Authorization, the design and negotiation of a subsequent implementation plan with the GOP took several months to complete. The project implementation letter was signed in April, 1990. The GOP has agreed to jointly program the use of proceeds from the sales of wheat for reconstruction activities, a cash-for-work component, and transportation of food resources inside Afghanistan.

An initial auction of PL 480 wheat on June 16, 1990 in Peshawar resulted in zero sales. Two subsequent auctions from Quetta were successful and the total 10,000 MT of wheat earmarked for this pilot effort have now been auctioned off.

Transfer Authorization No. 2 adding 2,500 MT of vegoil to the FY 1989 agreement was signed by the GOP of June 30, 1990. It will be sold under the same implementation agreement covering the PL 480 wheat. This pilot sales program will be evaluated to determine what lessons learned can be applied to future commercial sales programs.

d. Emergency Feeding: As a result of the recent termination of the Direct Distribution component, and in full recognition that there will be unexpected food emergencies as the result of acts of nature and continued fighting (most recently illustrated in Wardak), the Mission has put aside an emergency reserve of 500 MT of wheat out of the balances from the FY 1989 program. Instead of a Direct Distribution component, the Mission proposes to continue having available an emergency reserve of 2,500 MT for the 1991 program. This is a notional amount, and the emergency reserve should be kept as flexible as possible. If, for instance, it is determined that demands on the emergency reserve are likely to be exceeded, the commercial sales component of the program can be reduced accordingly.
Requests for emergency feeding will be considered by the Mission on a case-by-case basis, under which: 1) food needs are independently verified; 2) a multi-party shura is in place to receive and distribute the food; 3) target groups have been identified; 4) transportation will be arranged by O/AID/REP; and 5) its distribution will be monitored by personnel directly employed through the Mission.

5. Relationships with the Afghan Resistance

With the creation of the Afghan Interim Government in the spring of 1989, the Mission discontinued its practice of coordinating direct distribution of wheat with the Seven-Party Alliance, and instead encouraged the AIC to establish Food Committees in both Peshawar and Quetta for planning, targeting the distribution of food to designated multi-party shuras inside Afghanistan. The Pakistan ISI was instrumental in getting the AIG Food Committees established. The Committees are controlled and dominated by the fundamentalist Ittehad party of AIG Prime Minister Sayyaf.

In programming food we have experienced a variety of problems with these Food Committees, which have proven to be generally ineffectual.

As a result of the AIG Food Committees' weaknesses in assisting with food aid planning an distribution, and the AIG's lack of authority, credibility and support inside Afghanistan, A.I.D.-funded food shipments have been subject to hijackings by individual groups and commanders in Afghanistan. Slow wheat draw-downs since the direct distribution component was restarted in April, 1990 (after a three-month suspension while procedural issues were being resolved), and subsequent hijackings of food convoys, and the ineffectiveness of the AIG Food Committees, have resulted in the AID Representative's termination of this component. The ISI, however, were instrumental in helping resolve some of the food convoy hijackings which plagued the program during the spring and summer of 1990.

The recently gained unity of the Commander's Shura and the burying of the intra-AIG hatchets remain to be tested over time. As the AIG continues to lack both credibility and operational effectiveness, the commanders acting more or less in Mission, may prove to be a more viable alternative in the long run. After all, they control territory and populations inside Afghanistan whereas the AIG's attempts at control tend to remain limited to refugees in the Pakistan camps.

As described above, we are experimenting with alternative mechanisms to move PL 480 and other bulk foodstuffs to needy people inside Afghanistan, without the direct involvement and control of either the AIG or the ISI.
6. Multi-lateral Programs Using PL 480 Wheat (53,000 MT)

a. Northern Winter Appeal Program: WFP officers, who recently returned from Kabul and other places in the Northern provinces of Afghanistan, report that distribution of last year's Winter Appeal wheat in the north has improved in the past two months. The wheat is sold through a bazaar scheme and is also distributed to food-for-work projects and for vulnerable group feeding programs. According to WFP reports, 8,365 MT have been distributed from five different delivery locations along the Soviet border and at Mazar-e-Sharif.

b. Cross-border Feeding Program: From Pakistan, WFP has delivered approximately 7,748 MT to food-for-work and vulnerable group feeding programs in the eastern and southeastern provinces of the country, from the 53,000 USG contribution to this program.

c. Refugee Return: UNHCR and UNOCA have cooperated in a pilot refugee return effort (now called the "model program") targeted for 40,000 refugee families (approximately 240,000 persons), under which families willing to return would relinquish their ration cards in exchange for 300 kilograms of wheat and Rs. 3,300 in cash. On the receiving end inside Afghanistan, UNOCA's Salaam Mobile Units (SMUs) will provide resettlement assistance in kind and where possible. SMUs will not be available in all locations where refugees return. The Mission has supported this model program through its Commodity Export Program and other activities. UNHCR and others have reported on the sustained voluntary and unassisted return of as many as 100 families/day, mainly from Baluchistan. If the pilot repatriation program catalyzes additional refugee returns, the food needs inside Afghanistan could increase substantially and require, inter alia, that donor food contributions for refugee maintenance be available for shifting to areas of refugee return in Afghanistan.
B. Analysis
1. Assumptions Underlying a Revised Food Assistance Plan
   a. Political

   There is a possibility that the Afghan stalemate of the past two years may be broken in 1991.

   The United States has three remaining goals in Afghanistan (departure of the Soviet armed forces was the first objective and this was accomplished in February 1989):

   - re-establish an independent Afghanistan
   - self-determination for the Afghan people
   - return of the refugees with safety and honor

   Moscow has two important goals in Afghanistan. The first is to ensure that no government inherently hostile to the U.S.S.R. comes to power in Afghanistan (i.e., radically fundamentalist mujahideen groups bent on revenge against the Soviet Union). The second Soviet goal is to ensure a negotiated settlement in Afghanistan.

   The recently gained unity of the Commanders' shura and the burying of the intra-AID hatchets remain to be tested over time. As the AIG continues to lack both credibility and operational effectiveness, the commanders acting more or less in unison are becoming a much more viable alternative, as they control territory and populations inside Afghanistan. The AIG's influence remains limited principally to refugees in the Pakistan camps, other than that formerly exercised through the commanders.

   According to the Chief Coordinator (Rehabilitation and Reconstruction) and Chief Commissioner for Afghan Refugees (CCAR), 65,000 refugees have returned from Pakistan to Afghanistan under the UNHCR-sponsored voluntary refugee return pilot program, since its inception in the summer of 1990. The UNHCR is continuing the program, with the expectation that more and more refugees will want to return home, starting next spring, as fighting in many areas winds down, while certain areas have been peaceful for a long time. There is agreement that much greater effort is needed inside Afghanistan to prepare for their return, thereby creating a "pull" factor as well as meeting basic needs.
b. Economic

Estimated food grains production and demand

Agriculture has traditionally been the foundation of the Afghan economy, not only because of its large contribution to gross domestic product (GDP) and national employment, but also because it provided many of the materials upon which much of the country's industry and trade depended. The share of agricultural output (crop, livestock and forestry) in GDP was about 57 percent in 1975/76 before the war, of which food crops constituted 70 percent (World Bank).

(1) Crop Production -- Food Supply

Pre-war agriculture employed 64 percent of the labor force and was the major occupation for some 1.2 million farm families. According to "Adjustments of Estimated Production or principal crops" (table A, II9) in the Nathan-Berger Macroeconomic Database Development Study (January 1990), agricultural production's share of GDP in 1986/87 had dropped to an estimated 27 percent of total production, of which crops constituted only 30 percent.

According to the same study, prior to the war (1977/78) food grain production measured 4.112 million metric tons (MT) of which wheat constituted 2.652 million MT. By 1986/87 total food grains production was down to an estimated 1.984 million MT, of which wheat constituted only an estimated 1.238 million MT. Subsequent years, however, yielded better results, at an estimated 1.8 million MT of wheat in 1989 and 1.9 million MT in 1990.

Of the total surface area of 63 million hectares in Afghanistan, only about 8 million are arable, the remainder being high mountain land and arid wasteland. There are no major water bodies in the country. The arable land is scattered throughout the country, primarily in valleys along rivers and other water sources. Prior to 1978 the total arable area was about 5.2 million hectares, of which half was irrigated annually while the other half remained fallow. Only 1.4 million hectares of the land irrigated in sequence had sufficient water throughout the year to allow double cropping. Before 1978 the irrigated land area provided Afghanistan with 85 percent of all commercial food and industrial crops. Another 1.4 million hectares of cultivated rain-fed land supplemented the irrigated areas, primarily for subsistence farming. Thus, including the doubled cropping land, the total cropped land should amount to 5.4 million hectares. However, the official statistics report only about 4 million hectares of land cultivated
annually before 1978.

Due to a low and erratic level of rainfall, Afghan farmers have traditionally relied heavily on irrigation. The water comes from melted snow from the mountains. A variety of methods have been developed to control and distribute the water supply. In the northern plains, where the land is relatively flat, diversion dams of brush, mud, and stone were built to divert the water into a series of irrigation canals and then onto the terraced plots of land in the narrow river valleys. Throughout the eastern, southern, and southwester regions, farmers also use an underground irrigation system developed centuries ago by the Persians, called the *karez*.

Wheat, cultivated throughout Afghanistan, occupied half of the irrigated land and most of the rain-fed crop land before 1978 and is the basic staple of the Afghan diet. After the drought of 1971-72 and the subsequent famine in parts of the country, self-sufficiency in food, especially wheat, became a major goal of the government. Production of cereals rose just enough during the 1970s to obviate the need for imports during the years when the precipitation was normal. During dry years, however, such as 1977, the country had to import wheat and other staples. With the disruption of agriculture caused by hostilities after 1978, Afghanistan had to import wheat from a variety of foreign suppliers and donors to avoid famine.

The depopulation of the countryside and activities of war diverted substantial portions of the agricultural labor force from their usual pursuits. As a result, the maintenance of irrigation systems was neglected, pest control reduced, and farms had to be operated with reduced manpower. The lack of labor and draught power forced farmers to cultivate less land than they had prior to the war. In general, agricultural production in 1987 was estimated to be about half of its 1978 level. Production declines were also attributed to large price increases and lack of availability of equipment, seed, draught animals, fertilizer, and fuel.

Not only was the cultivated area reduced after 1978, but the crop yield per hectare also fell. Several factors combined to produce this reduced productivity. High-yield seeds were less available, and fertilizer use declined dramatically. The damage to the irrigation systems (approximately 40 percent of the traditional irrigation systems have been destroyed) caused water supply problems. Finally, there was direct damage to crops from hostilities, including actions against growing and stored crops. The resultant combination of smaller cultivated acreage and
lower yields drastically lowered farm production.

The Agricultural Survey of Afghanistan (ASA) concluded that present agricultural production is insufficient to support the existing Afghan population, even without the additional demands of the returning refugees. Afghan farmers will need assistance to reestablish agricultural production to its pre-1978 levels. The most obvious needs are for supplementary food and agricultural inputs during the reestablishment process.

(2) Population -- Food Demand

In his February 1990 study, "Afghanistan's Population Inside and Out," O/AID/Reps Dr. Thomas H. Eighmy estimated Afghanistan's resident population to be 12.363 million. To feed this number of people would require, based on the 500 grams per person daily requirement, approximately 2.256 million metric tons of wheat per year. (If the estimated refugee population of 4.549 million were to return en masse, this annual requirement would jump to 3.086 million MT of wheat.)

The year 1990 was by all accounts a very favorable crop year for Afghanistan as a whole, with the exceptions of the traditional food-deficit areas in the border provinces with Pakistan, the Central Highlands, and Badghis and Faryab where insect pest infestations caused a sizeable crop damage. The whole southern sector was termed a surplus area. FAO Special Report No. 8, dated August 1990, entitled "Food Crops and Shortages," lists total crop year 1989/90 wheat import requirements for Afghanistan at 340,000 MT. If aggregate wheat demand totaled 2.256 million MT, then the 1990 crop can be estimated at 1.916 million MT. Of the 340,000 MT import requirement, FAO reports that 40,000 MT were imported commercially, and 300,000 MT were listed as food aid, of which 250,000 MT were reportedly provided by the U.S.S.R. to the Kabul regime, and 50,000 MT by other donors, including the U.S. and U.N.

Based on wheat seed in the ground now and making some reasonable assumptions about weather and fertilizer availability and application rates, one may assume the 1991 wheat crop to be about 10 percent greater than 1990 crop, or 2.108 million MT. It is difficult to predict with any degree of confidence refugee return rates, which would add to aggregate demand.

Without any refugee returns in 1991, the natural population increase alone would increase aggregate annual demand for wheat to 2.301 million MT. Every 100,000 returning refugees would further increase aggregate demand
for wheat by 18,250 MT. One can play out a number of scenarios, with varying amounts of import requirements from a low of 193,000 MT to multiples thereof. What is clear is that the import requirement will be at least 200,000 MT but could be much higher, depending on the actual wheat crop out-turn and the number of returning refugees. It is most unlikely that the USSR will again provide 250,000 MT of wheat, given severe shortages at home. In addition, "unofficial" imports (i.e., smuggling) from Pakistan and some ISI "official" imports are likely to be down as well due to the deteriorating economic situation in Pakistan.

Even though the wheat producing nations, including the U.S.S.R., have had bumper wheat crops this year, storage, transportation and marketing problems in the Soviet Union will cause a large percentage of this crop to be wasted, with resulting food shortages nation-wide. As Soviet citizens are becoming increasingly vocal and critical about these continuing shortages because of poor planning and management, one may speculate as to the U.S.S.R.'s ability to continue to donate large amounts of wheat to Afghanistan when Soviet bread lines lengthen.

Over the past decade the Soviet Union has supplied the Kabul regime with as much as 400,000 MT of wheat per annum. Given the current food deficit situation in the USSR, it seems unreasonable to assume that the Soviet policy makers will risk starving their own citizens in order to be able to send wheat to Afghanistan in 1991. With the Soviet wheat contribution falling away, this leaves the entire import requirement to be met by food aid and commercial imports. During calendar year 1990, 36,000 MT of USG-donated wheat was shipped into Afghanistan (27,000 MT bilateral, 9,000 MT through WFP). Given the expected uncovered wheat shortfall for 1991, a prima facie case for the Mission's proposed bilateral PL 480 Title II wheat component of 52,000 MT clearly exists.

(3) Food Grain Balance and Trade

The recently completed Nathan-Berger study entitled "Private Sector Cross-Border Trade Between Afghanistan and Pakistan, Phase II" (Oct. 1990) also contains a preliminary food grain balance assessment, using alternative data assumptions. The Nathan-Berger assumptions produce a number of independently derived estimates indicating plausible ranges of actual wheat imports, and setting out the basic assumptions on which broad estimated must be made:

- Nathan-Berger estimate the total in-country population of Afghanistan to be 12,106,000 at mid-year 1989, about 2 percent below the Eighmy estimate for 1990. If annual per
capita wheat consumption were 180 kilograms (above the standard UN allotment of 150 kilograms but below the pre-war Afghan level of 220 kilograms), then total consumption of wheat inside Afghanistan would be 2.179 million metric tons. If production in Afghanistan were 1.788 million metric tons during 1989 (which is at the high end of the total production that Swedish Committee's Agricultural Survey of Afghanistan (ASA) officials are willing to estimate informally, based on their yield data), then the total shortfall would have been 391,000 metric tons. The shortfall would have been replaced by imports.

- If annual per capita consumption of wheat were at the pre-war level of 220 kilograms\(^1\), then total consumption would be 2.663 million metric tons. If total production were still 1.788 million metric tons, then the total shortfall would be 875,000 metric tons, which again would have to be made up by imports.

- A similar result would obtain if per capita consumption were left at 180 kilograms and total production were assumed to be 1.4 million metric tons -- the low end of ASA informal estimated. The total shortfall in this case would be 779,000 metric tons.

- In the worst case, if per capita consumption were at the pre-war level and total production were at the ASA low-end level, then the total shortfall would be 1.263 million metric tons.

Comparisons of the regional breakdown of deficit and surplus areas (see: Nathan-Berger "Afgrain: Afghanistan's Regional Foodgrain Situation," 1990; and Azam Gul et al. "Crops and Yields, Vols. I and II", Swedish Committee for Afghanistan, Afghanistan Agricultural Survey) lead to an important conclusion by Nathan-Berger:

"No matter what the level of current Afghan domestic wheat production, the traditionally deficit areas (see table) will continue to generate a deficit of approximately 400,000 MT. This amount is equal to the minimum deficit level produced by our other estimation methods."

1) Although pre-war statistical sources are unclear on this point, this level of consumption may include production-related waste, so that actual human consumption would be lower than 220 kilograms. In that case, estimates of current production levels, which are based on pre-war levels, should also be interpreted to include waste and should therefore be higher than the minimum subsistence level of 150 kilograms.
Estimated Wheat Production Deficit in Afghanistan During 1989 
Based on Population, Consumption, and Production Estimates

<table>
<thead>
<tr>
<th>Region/Province</th>
<th>ADAPTED SCHA POPULATION ESTIMATES (1000's)</th>
<th>REQUIRED CONSUMPTION AT 180 kg pdc</th>
<th>ADAPTED SCHA PROD. ESTIMATES By Type of Crop</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tot. 1989</td>
<td>Refugees Pakistan</td>
<td>Refugees Iran</td>
</tr>
<tr>
<td>1 Kabul</td>
<td>2410</td>
<td>250</td>
<td>100</td>
</tr>
<tr>
<td>1 Kapisa</td>
<td>433</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>1 Konar</td>
<td>357</td>
<td>211</td>
<td></td>
</tr>
<tr>
<td>1 Laghman</td>
<td>379</td>
<td>82</td>
<td></td>
</tr>
<tr>
<td>1 Logar</td>
<td>317</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>1 Nangarhar</td>
<td>1025</td>
<td>520</td>
<td></td>
</tr>
<tr>
<td>1 Parwan</td>
<td>531</td>
<td>38</td>
<td>4</td>
</tr>
<tr>
<td>1 Wardak</td>
<td>399</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>2 Ghazni</td>
<td>771</td>
<td>52</td>
<td>18</td>
</tr>
<tr>
<td>2 Pakhtoa</td>
<td>751</td>
<td>530</td>
<td></td>
</tr>
<tr>
<td>2 Pakhta</td>
<td>282</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>3 Farah</td>
<td>376</td>
<td>12</td>
<td>237</td>
</tr>
<tr>
<td>3 Helmand</td>
<td>595</td>
<td>213</td>
<td></td>
</tr>
<tr>
<td>3 Kandahar</td>
<td>804</td>
<td>292</td>
<td></td>
</tr>
<tr>
<td>3 Nimroz</td>
<td>140</td>
<td>4</td>
<td>85</td>
</tr>
<tr>
<td>3 Uruzgan</td>
<td>502</td>
<td>10</td>
<td>31</td>
</tr>
<tr>
<td>3 Zabul</td>
<td>192</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>4 Ghur</td>
<td>318</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>4 Herat</td>
<td>870</td>
<td>1</td>
<td>487</td>
</tr>
<tr>
<td>5 Badghis</td>
<td>318</td>
<td>0</td>
<td>167</td>
</tr>
<tr>
<td>5 Faryab</td>
<td>674</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>6 Bakh</td>
<td>629</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>6 Barmyan</td>
<td>317</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>6 Jawzan</td>
<td>678</td>
<td>59</td>
<td>11</td>
</tr>
<tr>
<td>6 Smangan</td>
<td>313</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>7 Badakshan</td>
<td>554</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>7 Baglan</td>
<td>498</td>
<td>221</td>
<td></td>
</tr>
<tr>
<td>7 Kunduz</td>
<td>662</td>
<td>294</td>
<td></td>
</tr>
<tr>
<td>7 Takhar</td>
<td>558</td>
<td>18</td>
<td></td>
</tr>
</tbody>
</table>

AFGHANISTAN 16655 3271 1278 4549 12106 2179 1268 520 1788 -391


(Source: Nathan-Berger "Private Sector Cross-border Trade, Phase II", Table 4-1)
In other words, given the current problems of interregional transport in Afghanistan, certain provinces (largely those bordering on Pakistan) will continue to require imports at any reasonably foreseeable level of national production.

Even with these tentative conclusions, at least one general conclusion is evident:

"Within any reasonable range of total production and import estimates, the in-country population of Afghanistan is in a precarious food balance situation. Consumption levels above subsistence, let alone near pre-war levels, are unlikely to be supplied. Even small decreases in production could push certain regions over the edge of subsistence into serious shortages."

Nathan-Berger estimated domestic wheat production for 1989 at 1.6 million tons in total, three-fourths of it, 1.1 million tons, coming from irrigated land and .5 million tons from rainfed land. Currently (1990) national consumption exceeds national production by 350,000 tons, but is likely to get worse unless dramatic production increases are realized over the next few years.

The distribution of these grain deficits appears in the last column of the above table. The largest deficit, nearly 300,000 tons, is concentrated in Kabul province. Border provinces towards Pakistan also have substantial deficits in grain production; however, their deficit status precedes the war. Earlier studies going back to 1972 report the border provinces as net importers of grain from other regions in Afghanistan.

Some provinces have apparent grain surpluses, most of them in the northern part of the country, bordering on the Oxus river basin. These provinces traditionally constituted the principal sources of grain for Kabul and even today might contribute a substantial portion of the capital's grain requirements, though at present the bulk of the city's supplies reportedly originates in the Soviet Union. Former Deputy Planning Minister, Abdul Aziz Ferogh, cites government figures of annual grain imports from the Soviet Union of 260,000 tons of recent years.

Three-fourths of Afghanistan's grain deficit, concentrated around Kabul, is satisfied mainly with imports from the Soviet Union; the remaining deficit, spread out over the provinces bordering Pakistan, is supplied with either grain donations or unofficial private trade purchased commercially in Pakistan, or leaking from the refugee camps.
These foodgrain balance calculations are only indicative, because they are based on estimates that are themselves uncertain. Nevertheless, they do indicate a plausible range of wheat imports, and set out the broad estimates upon which projections must be based. Both the levels of average consumption requirements and the grain production estimates are subject to debate. If average per capita consumption were at the pre-war level of 220 kilograms, then national requirements would increase to 2.7 million tons and the shortfall would be 900,000 tons. Similarly, if national wheat production were, as some contend, 1.4 million tons instead of the 1.8 million tons calculated above, the shortfall would increase to 800,000 tons.

An important conclusion from this regional analysis is that the basic structure of the grain market in Afghanistan has remained constant over the past decades, despite the traumatic effect of the war in regional trade. The traditionally deficit areas are the border provinces toward Pakistan and they will remain in deficit for the foreseeable future, especially if the refugees begin to return to those provinces. Kabul remains, and will continue to be, the largest market for grain. Under more normal circumstances the central government would resume grain imports from abroad to complement its national supplies from northern provinces.

Another general conclusion that can be derived from the provincial production estimates is that consumption levels are now very close to subsistence; shortages easily arise. Such is already the case in provinces like Badghis and Faryab where locust and sunnpest have decimated wheat fields. The resulting grain shortage cannot be alleviated because of the excessively high transport costs. Localized acute shortages and grain price spikes are therefore bound to occur. It is difficult to differentiate between exceptional situations and portents of general trend.

The Cross-border Trade Study found that "unofficial" wheat and wheat flour exports from Pakistan to Afghanistan in 1989 (wheat exports are illegal under Pakistani law) were estimated in excess of 81,000 MT. In addition, A.I.D. and the UN imported an additional 84,000 MT of bulk wheat, for a total of wheat/wheat flour import tonnage of 165,000 MT.

(4) Wheat Prices

Wheat and wheat flour prices tend to vary greatly among provinces and regions and tend to reflect market conditions. Wheat prices in the border areas with Pakistan reflect a
functioning market, despite wartime conditions that still prevail to varying degrees, depending on location.

In general, and not surprisingly, wheat prices are higher in Kabul City and surrounding provinces, and lower in town and easier access from Pakistan. Kunar province, the most accessible border province to Peshawar, tends to have the lowest price for wheat flour. Paktika presents an anomaly within the general pattern of prices reported for both wheat and wheat flour, despite being a border province with Pakistan. The apparent reasons for the high prices in Paktika are the ruggedness of the terrain, lack of good access routes, and remoteness from major towns in both Pakistan and Afghanistan. There is a long haul within Pakistan before wheat reaches the Pakistan-Afghanistan border.

In the most accessible provinces -- Kunar, Logar and Paktia -- the main trade is in flour rather than wheat grain. In contrast, grain trade is more prevalent in the more remote provinces. Transport costs represent a significant cost factor in determining wheat and wheat flour prices in different provinces. Transport costs (including risk) increase substantially with distance from borders. In more remote locations transport costs far exceed the original cost of the wheat in Pakistan.

It is not possible to estimate quantitatively the general relationship between transport cost and the price of wheat flour in the different provinces because we only have observations for five provinces in the cross-border trade study. However, the visual relationship is a strong indication of a definite trend. A trend line appears to match the variation in prices across provinces. Basically it shows that wheat flour prices increase in proportion to transport costs from the border, with transport costs accounting for perhaps two-thirds of the price increase between the Pakistan border and the provinces in Afghanistan.

The close relationship between wheat flour prices and trucking costs is reassuring in several respects. It confirms that, despite the prolonged war in the border areas, a grain market still functions, and it functions reasonably well in the case of foodgrains. There is some irony that in Afghanistan, ostensibly under a marxist non-market regime, grain prices roughly reflect market conditions, while in Pakistan, ostensibly a free market regime, grain prices are highly regulated and are allowed only partially to adjust to reflect external and internal conditions.
It is also reassuring that the cereals market in Afghanistan has proved sufficiently resilient to respond to the impact of several external interventions: the inflow of substantial volumes of donated grain; the blocking of the main supply route from Peshawar to Kabul; the interference with trade by both the Kabul government and mujahideen forces; the lack of mountain roads and their terrible condition; the shortage of maintenance facilities, spare parts and fuels; the lack of an official currency exchange mechanism; the regulations proscribing cross-border trade on both sides; and the official and unofficial tolls, taxes, and fees extracted en route in both countries.

Wheat prices in Afghanistan are roughly equal to or below the import price equivalent of wheat bought in the world market. The border has been closed to international trade in the past ten years. However, the following calculations illustrate the relationship.

In June 1989 wheat prices in Kansas City were about $4.33 per bushel of No. 2 hard, or $173 per metric ton, if a bushel is taken as equivalent to 25 kilograms. Ocean freight from the U.S. to Karachi is roughly estimated at $50 per metric ton, and inland freight and handling costs to Quetta and Peshawar were at least $50 per metric ton. Other costs such as barge transport in the United States, financial costs, documentation, and right of passage bring the total price above $300 per metric ton. At a 1989 exchange rate of 20 rupees per U.S. dollar, 100 kilograms of imported wheat would cost 600 rupees at the entry point in Afghanistan. The price for wheat flour would be higher than for grain, to cover processing and packaging.

Transport costs inside Afghanistan would tend to increase the price of wheat and wheat flour in the provincial markets in proportion to their distance from the points of entry. Prices reported by the Cross-Border Trade Study survey team for June 1989 in the different provinces were close to or below the hypothetical cost of the imported wheat.

The basic conclusion from the above comparison is that prices inside Afghanistan are roughly in harmony with international wheat prices. If Afghanistan were to open its wheat market to international competition, little disruption in prices would probably occur. On the other hand, current prices inside Afghanistan do reflect the presence on its Pakistan border of a substantial supply of wheat at subsidized prices.

A more relevant comparison is that between the reported Afghanistan prices and wheat prices in Pakistan. Official
1989 regulated wholesale wheat prices in Pakistan ranged between 250 and 270 rupees per 100 kilograms. There is an active private grain trade in Pakistan, but it is strongly influenced by the buying and selling prices of the national government. Prices in the private market differ only slightly from the official prices.

The subsidized Pakistan wheat price is substantially below the international import equivalent. The cost of imported wheat would range between $250 and $300 per metric ton, or 500 to 600 rupees per 100 kilograms. In other words, official wheat prices in Pakistan are about half of the international import equivalent. Pakistani farmers are receiving half as much for their wheat as they probably would in a more open market. Pakistani consumers are the main beneficiaries, and farmers are basically subsidizing consumers.

Afghans living in provinces bordering on Pakistan also benefit from the subsidized Pakistan wheat price. The artificially low price in Pakistan creates a strong incentive to move wheat out of Pakistan into Afghanistan and other markets that are more in line with international prices. The Pakistani government prohibits the exporting of grain because permitting exports would make it impossible to maintain the low official prices. Wheat exports to Afghanistan are, therefore, illegal. However, as the statistics show, wheat and flour are successfully smuggled in large quantities with little interference from GOP authorities.

Mountains, lack of roads and poor security, rather than legal proscriptions keep wheat and wheat flour smuggling from becoming more expensive. Transport costs over the mountain territories inside Afghanistan increase rapidly. The dampening effect of transport costs on the flow of wheat grain and flour into Afghanistan is a source of concern among donors providing grain for distribution in Afghanistan. They fear that, unless precautions are taken, the recipients of the grain might prefer to sell it directly in Pakistan instead of incurring the costs of taking it inside Afghanistan. Monitors are therefore often placed in the trucks carrying the donated grain to accompany the cargo until it is delivered to its ultimate destination.

(5) Other Donors

WFP Cross-border Programs from Pakistan: In 1989 the USG donated 53,000 metric tons of PL 480 wheat to WFP for the purpose of reaching vulnerable groups and supplying food-for-work programs inside Afghanistan. WFP cross-border feeding is important both for immediate beneficiaries and
for the groundwork laid for the future refugee resettlement programs. The WFP's project-oriented approach (primarily through NGOs) has resulted in a notably long break-in period. It has also, however, produced a system which emphasizes targeted feeding of vulnerable groups and better accountability for resources than would be possible in a larger, more general distribution program. For these reasons, the existing WFP cross-border program should receive continued support as one component of a comprehensive food assistance program for Afghanistan, subject to its ability to expand deliveries inside.

To date WFP has used only about 9,000 MT of the USG 53,000 MT donation (most of the initial deliveries inside came from EEC's donation of 49,000 MT which included funds to provide for transportation into Afghanistan -- see below). There are compelling reasons to continue to support WFP's efforts with the remainder of the USG donation. First and foremost is that EEC's wheat is no longer available for cross-border purposes. Another is the need to support the UN's efforts at symmetry in providing support to the southern areas of the Afghanistan while it is mounting "Winter Appeal" programs in northern Afghanistan supplied from the Soviet Union. In addition, WFP's cross-border wheat stocks also serve as a contingency reserve if larger-than-expected refugee movements into southern Afghanistan should occur.

WFP Cross-Border Programs from the USSR: Getting food aid through to the hungry families of Afghanistan's northern provinces is a challenge which has required the UN to break new ground. The worst food deficit areas are places where insect damage has occurred and where UN officials have never worked before, along the 1,100 kilometer long northern region.

The UN program consists of three components: a) vulnerable groups feeding; b) food-for-work; and c) food-for-bazaars. In the bazaar scheme a quota of wheat is made available to the local shura at a fixed price which includes delivery to each bazaar. This project price, known as the "release price", is set to be a similar to the normal market value of wheat, rather than the deficit-inflated price. According to UNOC/WFP reports from Kabul, 16,071 MT of wheat have been distributed in Herat, Mazar-i-Sharif, Termez and Kabul since the program began in the winter of 1988/89. Some of this has been reported to have reached liberated areas.

EEC Contributions to Cross-Border Programs: In late 1988 the EEC made 49,000 MT of wheat available to WFP for cross-border feeding programs. By June 1990 approximately
15,000 MT had been used for PVO-supported vulnerable groups feeding and food-for-work activities. In August 1990 the EEC redirected the remainder of its donation to refugee feeding in Pakistan only. The EEC does not anticipate making additional wheat available for cross-border programs until the situation inside stabilizes and/or large rehabilitation activities get underway.

**Japan's Donation to UNOCA:** Japan has pledged as much as $50 million to UNOCA for cross-border food/resettlement programs. However, the Japanese Government has frozen these earmarked funds until repatriation is judged to be seriously underway and UNOCA shows it has feasible programs inside which require the money. In the meantime, interest on the earmarked money has been made available for the demining program.

**Soviet Union**

Throughout the years of occupation (1979/90), the Soviet Union provided wheat to regime-held areas. These wheat donations have ranged in annual magnitudes of between 200,000 and 400,000 MT. According to the FAO, the Soviet Union's wheat donations to the regime continued after the Soviet troop withdrawal and for 1989/90 amounted to 250,000 MT. Most of this wheat has traditionally gone to Kabul. It principally feeds the military/security forces and their families, party members and government workers, at either greatly subsidized rates or free of charge.

**Saudi Arabia**

The Saudi government has for many years financed large amounts of wheat and other foodstuffs, primarily aimed at feeding the military components of the Afghan resistance. No accurate figures on aggregate quantities or geographic focus are currently available to us on these food flows, as they are handled through classified channels.

2. **Food Aid Objectives**

   a. **Discussion**

   Afghanistan presents a special case among food deficit countries in that the central government controls only urban areas and, because it has no foreign exchange to finance imports, is totally dependent on donated wheat from abroad, plus whatever wheat leaks into the urban areas from the resistance-controlled countryside. On the other hand, virtually all food grain production takes place in non-regime-controlled areas, but due to the ravages of war, still falls significantly short of demand, especially in bad
crop years. In addition, the war has disrupted marked channels and transportation so much that local food surpluses do not always or economically find their way to deficit areas. Moreover, the resistance has no central government which can arrange and pay for large commercial grain imports. Hence the need for sizeable food donations. Without massive food aid, consumption would probably have been more unstable than the record shows.

b. Background:

In 1986/87 when the PL 480 Title II food assistance program for Afghanistan began, the overriding objective was to provide emergency food for those Afghans remaining inside -- including the mujahideen fighting the Soviet occupation forces -- in the face of an estimated 50% reduction in food production capacity and disrupted marketing channels, as a result of the fighting. As such, PL 480 wheat shipments went inside Afghanistan along with seven-day food packs, and bulk CEP-provided commodities (ghee, dal, tea, salt, sugar, beans), distributed along party allocations and moved by party (and later, ACLU) trucks, according to mutually agreed-to guidelines. No specific groups were targeted beforehand. The parties distributed the foodstuffs according to their own judgments.

When the Soviet occupation forces completed their withdrawal from Afghanistan in early 1989, AID/W began to insist on better planning, allocation, targeting, distribution, monitoring, and accountability of PL 480 wheat going into Afghanistan. This coincided with the establishment of the AIG, and since one of the USG objectives was to strengthen the AIG in the hope that it might evolve into a viable government in exile, the Mission pushed for the creation of an AIG Food Committee structure under which we would have an important say in where and to whom the wheat was to go and be able to better account for ultimate destinations and end-users.

After serious monitoring and accountability problems were identified in the direct distribution component of the PL 480 program in November 1989, it was suspended until:

- a better planning, allocation and distribution mechanism was in place;
- target beneficiary groups were clearly identified;
- improved monitoring of food distribution inside Afghanistan was mutually agreed to; and
- multi-party shuras rather than the parties were to be the focus of requests for, and distribution of, foodstuffs.
AID Food Committees in both Peshawar and Quetta were created; they dutifully prepared detailed requests -- ostensibly generated by multi-party shuras -- and reached agreement with the Mission and ISI on per capita rations, on the basis of which overall food shipment allocations were to be based.

However, we found over time that the AIG Food Committees were not representative of the party make-up of the AIG -- in fact, they turned out to operate out of the Office of the Prime Minister and had Ittehad party representatives only. Besides, it became evident that they were not independent Afghan committees but rather, to a large extent, creations of the ISI.

USG disappointment with the AIG Food Committees and ISI further increased when neither were apparently able to ensure the safety of food shipments, illustrated by a series of waylaid convoys and diverted foodstuffs during the late spring and summer of 1990. Although the bulk of the food was ultimately recovered and sent on to its originally intended recipients, the episode created a bad impression all around with certain destinations and routes suspended because of these interferences and lack of security. It also materially contributed to further reduced offtakes.

The direct distribution component remained virtually suspended until Tarin-Kot, the provincial capital of Uruzgan, fell to the mujahideen in October, 1990, which coincided with preemptive Kabul regime strikes against resistance-held areas around Kabul. These developments gave rise to more displaced persons movements and temporary food shortages in these areas. Special requests came from individual commanders in Tarin-Kot and from shuras in Maydan-Wardak for emergency food shipments. The Mission responded favorable -- following AID/Washington approval -- with the provisos that: (1) rather than the AIG Food Committees verifying the extent of food need, in the case of Tarin-Kot an independent and well-known resistance leader, Hamid Karzai, would travel to the affected areas, identify the need and the target population and report back before any shipments were to be initiated; (2) A.I.D. would control the movement of assistance; and (3) food convoys would be provided assurance of security en route. Despite harrowing difficulties, delivery and distribution were carried out as planned, reaching the very hungry civilian population. WFP is to provide follow-up deliveries.

These experiences show that there will still be transitional needs for an emergency food relief component,
but these should be in the form of emergency shipments responding to specific situations inside Afghanistan, rather than blanket allocations based on requests developed by the AIG Food Committees in Pakistan. The individual response mechanism may be a more viable alternative to the AIG Food Committees mode. However, our ultimate objective should be to get out of such distribution altogether and turn it over to multilateral agencies (such as WFP) once they prove they have the capability of effectively manage it.

c. Operating Assumptions for Food Aid

The largest concentration of poor and malnourished people in the world is in South Asia, where more than one third of the region's population lives below the poverty line.

- Food aid is essential for low-income, food deficit countries. Even before the war, Afghanistan, then barely self-sufficient in food grains during good crop years, had the lowest per capita income level in the region. The war years significantly worsened this situation.

- Food aid constitutes an important safety net for the Afghan population as a whole, while food production capacity is being restored. It meets immediate shortages and provides longer-term security of food supplies.

- Food aid, through food-for-work activities, significantly contributes to rural infrastructure rehabilitation while providing employment and income for those who have no alternatives.

- For 1991 the estimated shortfall of wheat for Afghanistan - to be met by imports from all sources -- is likely to be in excess of 200,000 MT.

- Of this shortfall, 52,000 MT will be met by the USG through a bilateral PL 480 Title II grant, to be supplemented by USG contributions to multilateral agencies (WFP, UNOCA).

- The bilateral program will have three components: food-for-work, commercial sales, and emergency relief to selected areas where war-related and other food crises may develop.
d. Continuing Objectives

A core objective of A.I.D.'s relief and rehabilitation strategy is to establish food security for Afghanistan. The priority emphasis will continue to be on restoring agricultural -- and especially food grain -- production capacity. The food aid contribution to this end will be accomplished by:

- expanding options for increased access to food, with specific emphasis on food-for-work and commercial sales;
- using food resources to support rehabilitation and reconstruction of rural infrastructure using both U.S. and Afghan PVOs;
- using wheat sales proceeds for a cash-for-work component of food-for-work activities, and to defray the costs of other food-related activities;
- ensuring that adequate emergency relief wheat stocks are available to food deficit areas in liberated territories, accessible to distribution from Pakistan;
- using food resources in support of refugee repatriation, in line with humanitarian objectives; and
- expanding program options and mechanisms and continuing to make qualitative improvements in program implementation.

3. Modalities of Food Assistance

a. Food/Cash-for-Work

(1) Justification

In 1988 the Mission began planning for the eventual diversification of food aid programs away from the direct distribution mode which had characterized the PL 480 Title II program from its inception. A grant was provided to CARE to undertake a food needs assessment and gain preliminary experience in the field for future food-for-work programs. Valuable agriculture, population, and transportation data were compiled, and CARE proposed a food-for-work program to help support resettlement of 30,000 refugees in Kunar Province.

The Mission began discussions with the GOP and the AIG in early 1989 on the need for planning, diversification, and strengthened monitoring of its PL 480 Title II program.
These discussions included a proposal to add food-for-work and commercial sales components to the FY 1989 program, with the food-for-work program to be managed by CARE and/or other PVOS. In July 1989, after lengthy negotiations and specific instructions from Washington, a Transfer Authorization Amendment was signed by the GOP and the USG added 60,000 MT to the FY 1989 program, for a total of 120,000 MT, with 5,000 MT earmarked for a pilot food-for-work program. The Transfer Authorization and subsequent Implementation Agreement clearly spelled out the need to move toward a more transparent program with better accountability.

CARE was granted a certificate of non-objection by the GOP to work inside Afghanistan in July 1989, at least in part because of its operating agreement with the Reconstruction Authority for Afghanistan (RAFA), an NGO affiliated with the Afghan Interim Government. With food in hand, and with the agreement of the GOP and RAFA, a subgrant to implement the food-for-work program was provided to CARE in October 1990, by the International Rescue Committee (IRC), under the Rural Assistance Project (306-0208).

CARE established offices in Peshawar and Assadabad, Kunar Province, in November 1989, and completed other necessary startup activities, including staff recruitment, vehicle procurement and local contracting for commodity shipments. CARE has an operating agreement with RAFA and local activity agreements with the United Shura of Kunar to help facilitate communications and coordination.

In view of the Missions's recent termination of the direct distribution component of the food assistance program, and given the overall wheat deficit situation and the need to quickly reconstruct production-related rural infrastructure, we consider it imperative to expand the food-for-work component of the program.

(2) Current Status

Building on its experience gained during 1989/90 in the pilot food-for-work program in Kunar Province, under a subgrant from IRC, CARE received a direct one-year grant of $1.3 million, effective July 1, 1990, to expand its activity coverage in Kunar and initiate expanded operations in Paktika Province. This expanded program is utilizing 10,000 MT of PL 480 Title II wheat in food-for-work activities, plus access to sales proceeds for commercial wheat, auctioned off under the commercial sales component (see below) of the PL 480 program, for a one-third cash component of the food-for-work program.
The focus of CARE's 1990/91 operations is on supporting those Afghans who have remained in their country, as well as facilitating the return of Afghan refugees from Pakistan to areas where they deem it safe to return.

As was the case with the earlier pilot activity, CARE's program is designed to support a range of reconstruction activities which focus on providing food security and respond to the most urgent needs. These activities include:

- village road repair;
- irrigation system repair;
- field clearing and terracing;
- arranging for the removal of land mines;
- home reconstruction; and
- construction of warehouses.

CARE carries out household surveys to determine basic needs and facilitate participation in food-for-work activities by needy, area-specific families. CARE has been encouraged to enter into collaborative efforts with other organizations focusing on rural reconstruction (e.g., VITA) where food/cash-for-work can be a positive additional resource for expanding existing or planned agriculture and rural development activities. Village-level gabion production, precast roof beam and slab production, tree nursery activities and flour milling are being developed on a selected basis, with Mission concurrence.

CARE applies the following program strategy criteria in selecting geographic areas, target populations and construction activities:

- project villages must evidence significant potential for resettlement or reconstruction;
- project sites must be inhabited by families unable to satisfy their food and income requirements without diverting critical cash and manpower resources away from the process of resettlement/reconstruction;
- the range of project activities must engage village efforts in the reconstruction of crucial assets;
- the manpower requirements and wage rates must be such as to allow participating villages to carry out reconstruction of crucial community assets but not so high as to divert labor from other critical pursuits (planting, harvesting, etc.); discourage local food production or depress market commodity prices; or encourage future dependence on outside assistance;
- Project villages must fully participate in activity selection, project design, implementation and management, and will be entrusted with the responsibility of storing, distributing and accounting for project materials and food commodities; and

- The concerned provincial, regional and village councils (shuras) must be included in program policy making, identification of target villages and overall program oversight.

CARE's monthly offtakes of wheat over the period July-October, 1990, although steadily increasing, have averaged about 580 MT per month. During this period CARE's progress has been slow but steady, as outlined below. Despite periodic disruptions, CARE has succeeded in establishing reasonably normal procedures and gaining local confidence. A temporarily sequestered convoy was allowed to proceed last spring after the Assadabad shura successfully intervened with a rogue commander.

Kunar:

- Food security: A total of 1,650 families are enrolled in the food security scheme for returning refugees;

- Roads: A total of 10.5 km. of road were constructed;

- Irrigation: 10 irrigation repair projects were completed and an additional 16 started;

- Surveys: 24 surveys were carried out, including six roads, 17 irrigation systems and one mule track;

- Shuras: 11 additional shuras were formed during this period; as a result a number of additional new activities were able to get started.

Paktika:

A CARE mission to Paktika was successfully undertaken in September. Agreements with the Urgun shura were signed, assuring cooperation and safety of CARE employees. In return, CARE undertook to commence a survey and assist with the construction of roads, housing and water courses in the area.

(3) Perceived Problems

CARE has been slow in gearing up for its "expanded program" for 1990-1991, in part due to local disruptions and
the need to work out acceptable operating procedures. As a result its initial wheat draw-downs were well below projected levels. Despite earlier Mission suggestions to CARE/New York to assume a more prominent role in food aid activities, CARE's headquarter staff showed little interest in program magnitudes beyond slow incremental expansion. They should be encouraged to do more.

(4) Proposed Solution

(a) CARE

Responding to continued pressures from the O/AID/Rep to expand its program more rapidly and on a geographically broader basis, CARE submitted a proposal for a 1991/92 program which uses 3,000 MT of wheat and Rs. 128,000 million in cash components to achieve the following reconstruction/rehabilitation food/cash-for-work activities:

- 247 km of irrigation channels;
- 87 km of roads;
- 145 km of mule tracks; and
- 145 water-powered mills;
- 15 small warehouses.

While the great majority of the proposed projects are likely to be undertaken in Afghan provinces bordering on Pakistan, working in the interior provinces where suitable conditions prevail will be explored.

CARE has requested an all cash-for-work component in Kunar province to compensate for the relatively greater availability of wheat there and thus the need for a supplementary cash wage. CARE further proposes a 70% cash wage component for Paktika. The cash wage component will be derived from PL 480 commercial wheat sales proceeds.

(b) Save the Children Federation (SCF)

In addition to CARE's expanded 1991/92 program, the Mission proposes to broaden its PVO scope beyond CARE by developing additional food/cash-for-work programs with cooperative agreements and/or grants with both U.S. and local Afghan PVOs, emphasizing reconstruction and rehabilitation of production-related rural infrastructure.

Save the Children (SCF) has a number of non-USG-funded ongoing rural-based rehabilitation activities in Zabul and Ghazni provinces. SCF has submitted a food/cash-for-work proposal for 3,500 MT of wheat and Rs. 21.5 million in cash components in areas of Afghanistan where it has ongoing activities. According to this proposal, the main objective
of Phase One of SCF's Rural Rehabilitation program in Zabul province is to improve current and future conditions for area residents and repatriated refugees by implementing repairs to rural infrastructure through food-for-work programs.

Conditions in the target areas will be improved immediately through the provision of employment and the infusion of food and cash, and the long term through increased agricultural production and improved access to goods and services.

Zabul Province, historically a neglected area of Afghanistan, has suffered greatly from the destruction of the last ten years, both in terms of direct damage due to fighting and of indirect damage due to neglect. A large number of villages have been destroyed or severely damaged during the war, including extensive damage to the agricultural system. It is estimated that over 60% of the area's agricultural capacity is nonoperative, while large numbers of persons have become refugees or internally displaced. The present population of most areas of Zabul, including residents of the project areas, requires assistance to rebuild the rural economy to the pre-war levels, while returning refugees impose a heavy strain on the agricultural capacity of the area, particularly with respect to food availability.

SCF will start programming for the total amount of PL 480-sourced resources in Phase One. This translates into a daily wage of Rs. 60, or the equivalent of 14 kilos/laborer. Other categories of workers such as masons, carpenters, tractor drivers and other field staff may earn a larger food component equivalent. A small cash wage component will be provided from local currencies generated under the Commercial Sales component of the program.

Under Phase Two, scheduled for 1992, SCF would start operations in the Ghazni area with an additional 5,000 tons. During Phase One SCF would undertake a comprehensive plan to identify projects in Ghazni province. Phase Two would include a larger programmatic focus, including northern areas of Zabul province.

(c) Other NGOs/PVOs

Furthermore, the Mission is assessing the rehabilitation/reconstruction track records of indigenous Afghan NGOs/PVOs who have received past funding from UN agencies and other donors, in order to involve a limited number of them in carrying out food/cash-for-work activities in addition to those proposed by CARE and SCF. In our
program proposal for 1991 the Mission has earmarked an additional 3,000 MT of wheat for these proposed activities.

The need for food/cash-for-work activities clearly exists after the extensive damage which 12 years of warfare and rural neglect have caused. Moreover, self-help community activities tend to be more highly valued -- and therefore better maintained -- than "donated" infrastructure, where a sense of community "ownership" may be lacking. The country-wide food deficit and lack of cash incomes strongly argue for making this a preferred mode of compensation for local labor.

The key criteria the Mission proposed to apply in terms of selecting additional NGOs/PVOs for its food-for-work program are:

(1) do the proposed activities reflect local needs;
(2) has the PVO the implementation capability to make the program successful; and
(3) will proposed activities and facilities constructed serve to attract and support returning refugees or increase the ability of Afghans remaining in their country to move towards self-sufficiency.

b. Commercial Sales

(1) Justification

Exportation of wheat from Pakistan is illegal under Pakistan law because Pakistan itself is a wheat-deficit country. However, a special case exists for providing land-locked Afghanistan with wheat through Pakistan. In view of Afghanistan's large wheat deficit to be covered by imports from all sources, and recognizing that free wheat distribution on a large scale may constitute a disincentive to domestic wheat growers, AID/Washington suggested in 1989 that the Mission experiment with a pilot commercial wheat sales program in order to test markets, systems, and demand configurations.

Amendment No. 1 to the 1989 Transfer Authorization was signed on July 12, 1989 by the USG and the GOP, adding a further 60,000 MT of PL 480 wheat to the FY 1989 program to the 60,000 MT previously made available.

Paragraph G-3A of the agreement states, "of the 120,000 MT of wheat covered by this agreement, not less than 10,000 MT will be sold (monetized) for distribution within Afghanistan by private distributors; and, not less than
5,000 MT will be provided to USG support activities for war-affected Afghans and to diversify channels of distribution. It is the intention of this agreement that all commodities, including those monetized, are to be delivered into Afghanistan."

On September 17, 1989, the GOP and the USG signed an Implementation Agreement which further defines procedures for commercial sales. The Agreement states, "the GOP will assist in making arrangements with Afghan entities/traders to facilitate the re-export of not less than 10,000 MT of the above wheat. A specific plan will be developed in cooperation with the GOP, and then will be the subject of subsequent implementation letters."

A review of existing regulations and available resources was conducted November 1-25, 1989, to determine the most effective possible method of conducting commercial sales. Representatives from the GOP Ministries of Finance, Foreign Affairs, Commerce, Food and Agriculture were consulted, and decided that the program was to be coordinated on the part of the GOP by the Office of the Chief Commissioner for Afghan Refugees (CCAR).

Commercial sales of PL 480 wheat is a pilot effort to:

1) test officially sanctioned, commercial wheat sales as well as vegetable oil and marketing/distribution operations into Afghanistan; and

2) provide a better understanding of the underlying marketing/distribution dynamics in response to a variety of demand and supply factors.

The program tests the capacity of local traders to deliver badly needed food inside Afghanistan. The object of this experiment is to see if relatively large volumes of wheat and vegetable oil can be effectively moved into markets inside Afghanistan through the private sector, with a minimum of outside intervention and subsidy. Distribution costs are borne by the final beneficiaries of the program. This pilot program is expected to provide more information on the amount of purchasing power available to buy food in the war-torn, largely subsistence Afghanistan economy.

(a) Guiding Principles

Prior to implementation, the Mission laid down the following principles which would guide the pilot program:

- The program will use existing private commercial marketing systems.
The marketing and distribution operations inside Afghanistan will be through private commercial Afghan channels. This pilot effort must be kept as simple as possible.

In order to facilitate the operations of the commercial sales program, the GOP will designate an implementation agent approved by A.I.D. The agent will act on behalf of A.I.D. and the GOP in managing the sales process in accordance with the joint agreement between the GOP and O/AID/Rep.

Bids will be invited for the purchase, transport and commercial sale of PL 480 Title II wheat and vegoil inside Afghanistan. Bids for predetermined quantity lots of wheat must be openly competed. Quantities may have to be subject to certain maximums in order to prevent trader monopolies.

Ex-Pakistan prices must be such as to prevent refloows to Pakistan, but not so high as to constitute a disincentive to traders/truckers regarding their own margins relative to prevailing retail prices at final destinations.

(b) Operating Assumptions

Success of the pilot effort was thought to depend on several operating assumptions:

- There is unmet demand for wheat and vegoil in Afghanistan, exacerbated by as yet limited agricultural activity and recent insect infestations affecting the domestic crop.

- Commercial markets are functioning, although distorted by the political/military situation and other factors.

- Afghan traders are very resourceful and will find a way to maximize trade within wartime constraints.

- Transportation, transaction costs and risk factors constitute a large element of the wheat's and vegoil's retail market price at final destinations.

- The wheat will move to wherever the traders can maximize profit and traders may decide to move some of it temporarily into storage.

- Traders have access to both transportation and financing.
Many ordinary Afghans have access to sufficient cash to afford to pay prevailing resale prices for wheat and vegoil in Afghanistan's food markets.

There are sufficient commercial truckers/traders to bid competitively for predetermined size lots of wheat and vegoil.

Foodstuffs from Pakistan are usually sold to wholesalers in mujahideen-controlled markets inside Afghanistan. In these markets, the importing wholesalers sell to local wholesalers who, in turn, sell to retailers. Each of these traders adds on his margin. Profits are based on final selling price and are, therefore, proportionately higher.

In most areas of Afghanistan, but especially so in the eastern and southern border provinces, trade is to a significant extent conducted in Pakistani rupees.

Aside from the profit from resale of the wheat and vegoil, the additional incentive for trader participation in this program will be the issuance of travel permits through Pakistani tribal areas bordering Afghanistan. The trader and truckers will have to make their own logistical/security arrangements inside Afghanistan.

The Mission has adhered to the guiding principles during the pilot phase, which has proven the operating assumptions to be correct.

(2) Current Status

On May 12, 1990, the USG and GOP, the latter represented by the Chief Coordinator (Relief and Rehabilitation) and Chief Commissioner for Afghan Refugees (CCAR), agreed in an implementation letter to commercially auction off 10,000 MT of PL 480 Title II wheat. Development Alternatives Incorporated (DAI) was appointed to act as agent for the GOP to conduct the auctions. To date three auctions have been held. One for 2,500 MT was held in Peshawar in June 1990. It was unsuccessful because an Afghan bumper wheat crop was just then being harvested and coming on the market, which caused a dip in prices. As a result, none of the bids met the base price (Peshawar Food Department release price plus 3%). The second and third auctions for 5,000 MT each, were conducted from Quetta and were both successful.

DAI ensures that the commercially sold wheat goes into
Afghanistan and tracks it to where the traders sell it, by means of receipts submitted by returning traders. To the extent possible, DAI also performs spot checks in locales inside Afghanistan where it has bazaar representatives.

The wheat from the second successful Quetta auction is still in the process of being drawn from the food warehouses and being shipped inside Afghanistan by the traders. The Mission has as yet no final destination statistics for the second 5,000 MT commercial sales wheat tranche. However, based on destination data obtained by DAI from delivery receipts submitted by returning traders for the first 5,000 MT tranche, the distribution pattern from Quetta was as follows:

<table>
<thead>
<tr>
<th>Province</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Kabul</td>
<td>51</td>
</tr>
<tr>
<td>Gharni</td>
<td>23</td>
</tr>
<tr>
<td>Kandahar</td>
<td>13</td>
</tr>
<tr>
<td>Helmand</td>
<td>12</td>
</tr>
<tr>
<td>Zabul</td>
<td>1</td>
</tr>
</tbody>
</table>

In June 1990 the Commodity Credit Corporation was authorized to deliver, in addition to the wheat, 2,500 MT of vegetable oil, to further test commercial marketing mechanisms as a means of providing food for distribution inside Afghanistan. A transfer authorization amendment between the USG and the GOP was signed July 1, 1990. This vegetable oil arrived in-country in early November 1990 and is currently being processed for auctions in both Peshawar and Quetta.

These commercial sales have thus far (through November 1990) generated Rs. 15 million in local currency. It was originally anticipated that some of these local currencies might be needed for transport subsidies to move the commercially sold commodities inside Afghanistan. The successful auctions thus far have illustrated that such a subsidy is not needed. However, it has been found necessary to use a portion of these sales proceeds to cover transport costs for emergency relief foodstuffs (see below). Finally, sales proceeds are currently being used to provide a cash wage component to CARE food-for-work activities in areas where a sole food wage cannot be justified. Thus far Rs. 6 million have been transferred to CARE for this purpose.

A number of lessons are being learned from this pilot effort. These will be fully evaluated once the full 10,000 MT of wheat and the 2,500 MT of vegoil have been shipped into Afghanistan, and mechanisms, processes and destinations are clearly identified. These lessons will be factored into
future commercial sales activities. At the time of this writing it is premature to speculate as to what all these changes might be, as these are likely to reflect, along with our own, those of DAI and of the Chief Coordinator (Rehabilitation and Reconstruction) and Chief Commissioner for Afghan Refugees (CCAR).

However, the Mission has put together some preliminary thoughts on our experience with commercial wheat sales thus far:

a) The greatest problem experienced so far has been the confusion with regard to this pilot program within the GOP. Although the GOP has signed an agreement with A.I.D. concerning the implementation of the program, provincial government offices (Food Department, Home Secretary) seem unaware of their roles and responsibilities. In the instance of the first and second Quetta wheat auctions this led to delays of up to one month each before traders could finally pick up their wheat.

To overcome this problem, the Mission has decided that in future auctions the full amount of the commodity to be auctioned will be assured for delivery to traders withdrawn from the GOP warehouses and will be in the possession of O/AID/Rep before the actual auction takes place.

b) The operational procedures established by O/AID/Rep have been generally workable. However, DAI suggests one addition: In the event that a number of auction participants successfully bid for a greater quantity than is available, then the commodity being auctioned should be divided proportionately among the high bidders. For example, if 16 participants each bid the same amount for 500 tons apiece out of a total of 5,000, then each should be allocated \(\frac{5,000}{16} = 312.5\) tons.

c) DAI’s experience in PL 480 commercialization suggests that, in addition to a high degree of shrewdness, successful traders share three characteristics:

- They have access to credit. Credit is normally extended by other Afghans, by organizations, by powerful commanders, or by family and tribe members. (These may often be the same.)

- They have extensive contacts with wholesalers, retailers and commercial truckers. Their contacts allow them to minimize costs and to ship wheat (or other commodities) further, to areas with higher potential profits.
They have a network of relationships that enables them to cross political, tribal and religious boundaries.

As a result, there are relatively few Afghans capable of bidding independently and successfully on wheat. Instead, they tend to pool their financial resources and benefit from the leader's contacts and relationships.

The result of the above circumstances is that in the near term wholesale trade will be dominated by a relatively small number of successful merchants. Retail traders will continue to be small-scale.

d) Results from the initial auction show that a large proportion of the PL 480 wheat auctioned by DAI appears to have gone to Kabul Province. There is probably no way to avoid this so long as the potential profits are highest there. However, even if there was a way to prevent it, the net effect would be the same. Although Afghanistan is fragmented politically, economically it is a single market. PL 480 wheat auctions (and free distribution, for that matter) increase the total quantity of wheat in the country. Wheat from surplus areas will tend to flow to deficit areas, whether in government or resistance hands, so long as a price differential exists. Whether the actual wheat that goes to Kabul is from A.I.D. or is grown in, say, Ghazni is irrelevant.

e) Tracking of wheat in Afghanistan depends, ultimately, on a relationship of trust between the purchasers and DAI. There is no effective way to monitor where it goes once it crosses the border. Even if a trader sells it in Zabul, for example, his customer may well haul it to Kabul for resale. So long as we do not place onerous restrictions on the traders, they will have no incentive to lie and will be relatively forthcoming about where the wheat has gone.

3) Perceived Problems

We see no way to stop wheat (or anything else) from moving inside Afghanistan to find a top price -- including into DRA regime-controlled areas -- unless it is consumed or stored by those with the political and military leverage to overcome the profit motive. We could try to ban certain destinations, but quite aside from not being able to enforce such bans, we would no longer be using open markets. Moreover, as the political situation shifts away from Moscow, and given the latter's inability to make up the shortfall in food, this constitutes a plus for our ability to have some food reach the country's largest food deficit concentration. Given the comparatively small amount (in terms of the overall shortfall) of U.S. wheat which is
planned for commercial sales, the Mission has concluded that the market should be given a chance to continue.

4) Proposed Solution

The Mission wants to continue the commercial wheat sales program element, and pending the positive outcome of a 2,500 MT pilot, a vegoil sales component was well.

In view of the fact that marginal intra-GOP communication and coordination have constituted the only notable operational problem of the pilot sales program identified thus far, we believe that the Mission should consider helping A.I.D. strengthen the GOP's CCAR so that it can become increasingly involved with the program's operational aspects.

The two successful wheat auctions have illustrated both the demand for commercially sold wheat and the purchasers' ability to pay. Commercial sales of vegoil are also expected to be successful. It is an idea which has captured the imagination of the Afghan traders.

Experience suggests that the Mission can easily sell considerable quantities of PL 480 wheat per annum, so long as we time our auctions not to coincide with local harvests. Besides, commercial wheat will not constitute a disincentive to local production and trade if market rates are maintained and the end-consumer pays for the transport and transaction costs inside Afghanistan.

c. Direct Distribution

As described earlier, this program element used to be the only component of the PL 480 program, but has been beset by problems for over a year, and because of various suspensions and routing bans related to previous hijackings of food convoys, it has become a dwindling part of the program. Direct distribution offtakes in 1990 had declined to an average of 965 MT/month, down from 5,000 MT/month in 1989. On November 26, 1990, this component was terminated.

d. Emergency Feeding

Emergency relief remains one of the clearly humanitarian aspects of our PL 480 Title II program, if properly targeted on newly- liberated refugees whose main concern remains: can my family and I survive inside Afghanistan.

The Mission has successfully experimented with providing selected food aid in response to clearly
identified emergency situations. These emergency responses were prompted by Afghans suddenly becoming at risk because of military operations or the fall of a provincial capital to the resistance forces.

We believe the proposed mechanism gives A.I.D. a much improved basis on responding to needs of groups of our choosing, and better accountability of ultimate beneficiaries.

Responses to emergency food relief requests will in the near future be handled by the Mission directly and the process will be controlled by USDH personnel. Independent assessments of food needs and magnitudes will be made by trusted individuals known to us, who will also determine and advise us on local authorities capable of receiving, storing and equitably distributing the foodstuffs to targeted groups of designated beneficiaries. The Mission will insist on written assurances with regard to the security of the foodstuffs, both en route and at the point of destination, to be provided by the recipient authorities. O/AID/Rep will then arrange for transportation according to its best judgement, depending on circumstances and location of the intended beneficiaries. Mission-funded and controlled monitors will travel with the food convoys, observe final distribution, obtain receipts, and subsequently report their findings directly to the O/AID/Rep.

We envisage relief food provision to be the exception rather than the rule and plan to allocate a relatively small amount of wheat for this purpose in our 1991 program. Once this program element has been further tested and procedures are firmly in place, the Mission may want to turn emergency relief feeding over to one of our contractors or grantees.

e. School Feeding and MCH-related PL 480 Program Options

The Mission has discussed the pros and cons of initiating pilot activities under the above two rubrics, and decided not to pursue these for the following reasons:

- If not extremely well managed, the staff of the health delivery system will not be able to identify and reach vulnerable target groups. Afghanistan is a long way from having a health delivery system that can provide the required management and logistic systems necessary to assure that food finds its way to those who need it.

- There are only a dozen or so MCH clinics outside of PDPA areas -- most are MSH clinics, which are just getting off the ground and thus are fragile. This is too small a number to justify a MCH feeding program.
- The "regular" clinics the O/AID/Rep and other donors support, on average, see patients who are adult males or older children. At present only about 15% of the patients are women and 12% children 5 and under -- but this is the vulnerable group we would want to reach. (Generally the people coming into the clinics do not represent the worst off, those who are restricted to their homes or are too far away from an active clinic.)

- By using foods not locally available, donors foster a dependence which cannot be met in the future.

- By adding a feeding effort on top of a health/medical program, well-meaning donors may detract from high priority health problems.

- School feeding programs tend to be beset by another set of problems relating to storage of foodstuffs, quality control, often unhygienic preparation conditions, beneficiary selection, and accountability issues.

4. Institutional Analysis

a. GOP

The various GOP entities the Mission currently interfaces with are:

- Ministry of Foreign Affairs

- Office of the Chief Coordinator (Rehabilitation and Reconstruction) and Chief Commissioner for Afghan Refugees (CCAR)

- ISI

(1) Ministry of Foreign Affairs

The Pakistan Ministry of Foreign Affairs (MFA) coordinates overall program responsibilities with other GOP Ministries and Agencies.

When PL 480 commodities arrive at the Pakistani port of entry, they are received by the Ministry of Food and Agriculture (MINFA) and become the temporary property of the GOP. According to the terms of the Title II Transfer Authorization between the USG and the GOP, the GOP can "swap" PL 480 wheat for any wheat of equal quality for issuance to the cross border program. Transportation of the commodities from the port of arrival to the two provincial issuance points (Peshawar and Quetta) is arranged by MINFA through a combination of carriers, the Pakistan Railway, the
National Logistics Cell (a Pakistan Ministry of Defense parastatal corporation), and private transporters. These costs are covered by transportation grants (currently $50 per metric ton under the 1989 program) to the GOP.

With so many GOP intermediaries involved between receipt of the commodities and their ultimate shipment inside Afghanistan, the Ministry of Foreign Affairs performs a crucial role as the focal point for intra-GOP coordination. The MFA office with which the Mission deals on a day-to-day basis on PL 480 related logistics issues is the Directorate for Afghanistan II. Under the "food assistance" rubric, the Directorate assists the Mission to coordinate with the Ministry of Food and Agriculture, and with provincial departments such as Food and Home Affairs.

(2) Office of the Chief Coordinator (CCAR)

This civilian office was created -- at the urging of the USG, seeking an alternative from our earlier almost total operational dependence on ISI -- by the Office of the Prime Minister in 1989. It is headed by retired Major General Agha Zulfiqar Ali. It was formally redesignated in February 1990, adding the "refugees" responsibilities to "rehabilitation and reconstruction".

General Zulfiqar has a small office staff to handle cross border activities and employs regional coordinators in Peshawar, Quetta and Karachi. He is extremely capable and competent. The Chief Coordinator's office has many responsibilities and deals with a large range of donors and organizations, but most of the critical work appears to be done by Zulfiqar himself. The CCAR's operation needs strengthening.

(3) ISI

ISI was our sole interface with regard to the direct distribution component of the food aid program from its inception. It coordinated with the seven-party alliance, and later the AIG, the allocation and distribution of foodstuffs inside Afghanistan. It also coordinated, first with AMEG, and subsequently with RONCO, the releases of foodstuffs from the provincial Food Department warehouses. And it coordinated, partially through the parties and partially through the Afghan Construction and Logistics Unit (ACLU), the transportation of these foodstuffs to destinations inside Afghanistan.

This worked well when the Soviet occupying forces were still in Afghanistan. Once the Soviets completed their departure in February 1989, greater accountability was
required; which meant a more pronounced A.I.D. role in planning allocations, targeting specific groups of beneficiaries; monitoring food shipments inside Afghanistan; and involving the AIG in food needs determination and allocation decisions.

Section 2b, above, reflects how these various elements evolved over time, with the results that the Mission has terminated the direct-distribution component of the program. We will distance ourselves operationally as much as possible from ISI, except for notifying them where shipments are going, since they can provide additional protection against hijacking.

b. **NGOs/PVOs**

We currently deal with only CARE, but we hope to expand the food-for-work program through at least one additional US PVO, Save the Children Federation (SCF), plus a small number of well-established Afghan NGOs who have a proven track record of carrying out donor-assisted activities inside Afghanistan.

When CARE completed its 1989/90 pilot food-for-work project in Konar, CARE's expatriate staff consisted of two (U.S.) expatriates: the CARE Chief of Mission and a Program Manager. It also employed 15 Afghans, including the Chief Engineer. CARE has a head office in Peshawar, a Konar Province branch office in Assadabad, and is in the process of establishing a second provincial branch office in Urgun, Paktika. Although CARE's Afghan staff can freely travel inside, under USG policy the two American expatriates cannot. CARE recently hired a British Assistant Project Manager who is able to travel inside.

CARE's Afghan staff is currently in a rapid expansion mode, as new activities are in the planning and early implementation stages in Paktika, and additional rural rehabilitation projects are being added in Konar.

We have initiated discussions with Save the Children, who have indicated an interest in undertaking food-for-work activities in Zabul and Ghazni provinces. In addition, we are in the process of identifying a number of Afghan NGOs with proven capabilities in carrying out food-for-work reconstruction activities in selected areas in Afghanistan.
c. Contractors

(1) RONCO

The Mission's procurement contractor, RONCO, like its predecessor AMEG, assists with PL 480 commodity releases from GOP provincial food warehouses and keeps running tallies from both Quetta and Peshawar on wheat releases and remaining balances. RONCO monitors also accompany direct distribution, now emergency relief, food shipments to their final destinations and verify distribution to final beneficiaries as much as security situations and personal safety concerns warrant. This has generally worked to our satisfaction. RONCO has expatriate resident staff in Islamabad, Peshawar and Quetta, and have trained adequate numbers of Afghan monitors. RONCO also operates warehouses in these locations.

(2) DAI

Development Alternatives, Incorporated (DAI) is the main contractor for the Private Sector Agribusiness subproject under the Agriculture Sector Support Project. DAI was appointed by the GOP to act as its agents (since the GOP is the legal owner of the PL 480 commodities until disposed of inside Afghanistan) for the Commercial Sales components of our food assistance program. Thus far DAI has arranged all three auctions under which 10,000 MT of wheat were successfully sold. DAI has done a commendable job to everyone's satisfaction and is properly accounting for rupee sales proceeds held in a special account.

It is expected that DAI will continue to act as the GOP's agent in future commercial sales programs, since these fit with its private sector agribusiness mandate. However, should DAI not continue in this role, RONCO staff in both Peshawar and Quetta have been closely observing the commercial sales processes, have stored some of the commodities and are judged to be completely capable of taking this over from DAI if the need arises. RONCO has affirmed that it is prepared to take over the commercial sales program component when so directed by the Mission.

(3) CCSC/ACLU

The Construction Control Services Corporation (CCSC), a Section 8A contractor, supplies technical assistance to the Afghan Construction and Logistics Unit (ACLU), an Afghan transportation and road construction company located in Peshawar. Created in 1988, the ACLU's dual purpose mandate is to provide transportation for food, educational materials and medical supplies programmed by the Mission for use.
inside Afghanistan, and to repair roads and bridges critical to transporting these commodities. The unit owns and operates a fleet of 80 trucks and subcontracts with local transporters when greater transportation capacity is called for on occasions.

ACLU has successfully transported large quantities of PL 480 foodstuffs inside Afghanistan under both the direct distribution and the food-for-work components of the program. The only problem is that ACLU rates are more expensive than those of private truckers. That is because private truckers backhaul return loads (sometimes proscribed items), whereas ACLU trucks deadhead back to Peshawar. As well, the ACLU rate schedule was established to preclude it from competing with private sector commercial truckers on routes able to be served by the latter.

d. O/AID/Rep

The Mission's humanitarian PL 480 food aid program for Afghanistan has constituted $119,660,000 (including ocean freight), or 33.6 percent of our total program obligations through FY 1990. Since program implementation began in February 1987, almost 200,000 MT of PL 480 wheat have been delivered inside Afghanistan. The program is managed by the Program Office's Food-for-Peace Officer, supervised by the Program Officer. The Food-for-Peace Officer also monitors the USG's PL 480 contributions to the World Food Program, as well as USG food assistance to Afghan refugees in Pakistan. The program is well staffed and managed despite its complexity and labor-intensity.

e. International Organizations

(See section B 1 b (5) above.)

f. Afghan Resistance

CARE and other PVOs are expected to continue to coordinate their food-for-work programs with local shuras in the communities in which activities are being implemented.

We no longer deal with individual parties within either the AIG or within the resistance at-large.
C. Conclusions of the Food-Aid Analysis

The purpose of this section is to draw conclusions for the present situation from the above analysis and to describe the elements of an appropriate USG supported food-aid program for Afghanistan for FY 1991, as well as provide guidelines for potential FY 92 and 93 programs. This section will define how the Mission will respond to the needs identified in the analysis, including justification of food aid, program components, commodity mixes, monitoring requirements and a description of the risks attendant with proceeding with the program.

1. Justifications

The Mission concluded that there are three broad justifications for additional food aid; consumption needs, repatriation expectations, and rehabilitation/reconstruction requirements. These are defined as follows:

a. Justification Based on Consumption Needs

Wheat continues to be the most important single food commodity for Afghanistan. The above population/food demand analysis estimates that a shortfall of at least 200,000 MT of wheat will have to be filled by donor programs and unofficial trade in 1991. There is no evidence that any donor-supplied wheat for programs inside Afghanistan have flowed back to Pakistan. There are clear indications that consumption needs in Afghanistan will continue to increase and that donor contributions, particularly from the Soviet Union, will sharply diminish. A compelling argument exists, based on consumption needs alone, for the USG to continue providing part of this import requirement with PL 480 wheat for selected cross-border programs inside Afghanistan.

b. Justification Based on Refugee Repatriation Expectations

The Soviet military forces left Afghanistan in the months preceding February 1989. In the 20 months since then efforts by a variety of Afghans (commander, representatives of the AIG, the PDPA regime) have failed to establish a representative government, with the result that refugees in Iran and Pakistan have not returned to their homes in any substantial numbers. In addition to the present unsettled political/military landscape which prevents massive repatriation, we do not expect any significant refugee return in the next several months because of the advent of harsh winter weather.
As of December 1990, most Afghanistan observers agree that the climate for a negotiated political settlement is more favorable than ever before and that positive developments in the next few months could spark a substantial refugee return by next spring or summer. The question of whether any single donor or international organization can respond adequately to substantial repatriation (in magnitudes of hundreds of thousands) remains unanswered. The U.S and UN's limited experience inside with resettlement efforts have not produced replicable models.

Evidence from the preceding analysis and other sources leads us to the conclusion that in the light of recent setbacks with direct distribution through the AIG food committees and other efforts, collective donors must continue testing delivery mechanisms which focus on reconstruction, provision of emergency or "gap filling" rations, and other activities which will create a "pull effect" in preparation for the day when major repatriation occurs.

c. Justification Based on Reconstruction Needs

We know from scores of verified reports, photographic evidence and first-hand accounts that the magnitude of destruction inside Afghanistan is enormous. In the agriculture sector, from which over 85 percent of Afghans derive their livelihood, physical destruction to irrigation canals, fruit orchards, food storage facilities, and repair. The logistical task of mobilizing human and material resources in remote villages of Afghanistan, where little or no organized civil administration exists, is also enormous. The Mission is convinced that the bulk of the PL 480 commodities should be used to facilitate the self-help reconstruction process in areas where they do not present disincentives to local agricultural production.

It remains uncertain how many of the 3.35 million refugees in Pakistan and 1.2 million in Iran will eventually return to Afghanistan. What is known, however, is that all those who return face an immense task of reconstructing their lives, homes, and environment. The limited food-for-work experience in Kunar Province has provided valuable lessons, showing that Afghans can will effectively utilize food aid as a wage in the construction process, thereby creating conditions for renewed economic activity, as well as refugee and DP resettlement.
2. Proposed Food Aid Program for FY 1991

The preceding analysis and three years of experience with cross-border programs (O/AID/Rep's and WFP's) show that it is advantageous to have a mix of program options in order to effectively respond to varying food aid needs inside Afghanistan. This experience, coupled with evolving needs, has led to a major revision in the Mission's program for FY 1991 and outyears. We have terminated the Direct Distribution component of the program and will focus instead on a three-pronged, more targeted series of activities. This proposed three-pronged approach -- food/cash-for-work, commercial sales, and emergency feeding -- will provide a full range of options. These will permit the USG to respond to the many identified needs of the Afghanistan situation.

a. Food/Cash-for-Work

Evidence generated since 1989 by the CARF project shows that food and cash-for-work programs can have positive effect on the overall goal of improving food security in Afghanistan. CARE's experience in Kunar Province has shown that there are effective ways to program food aid which result in reconstructed roads, fields, irrigation ditches, with a positive impact on the environment. These reconstructed facilities not only stimulate refugee return but shorten the period required for Afghan farmers to become self-sufficient again. To the extent that these projects are undertaken in food-deficit areas, the food component of the wage reduces problems caused by food shortages, and where the food is monetized, it adds to locally available food supplies.

In FY 1991 top priority will be given to expanding food and cash-for-work programs in the logistically reachable eastern and southern provinces where many refugees will eventually return. CARE's program was expanded in FY 90 to include Paktika Province. Further expansion into these provinces in planned for this fiscal year and to other provinces in the outyears. Save the Children Federation (SCF) has submitted a viable proposal for food-for-work activities in Zabul and Ghazni Provinces similar to the CARE activities, and we are evaluating the possibility of using qualified Afghan PVO's in the process as soon as possible.

Finally, the Mission will initiate small food-for-work programs with selected Afghan PVOs who have the capability and a proven track record of successfully implementing food-for-work projects funded by other donors.

Each of the geographic areas proposed for expanded food-for-work activities has its own unique labor and food
availability situations. Each will require its own food/cash mix for effective programs. These rations would vary from province to province but the emphasis will on developing labor-intensive projects which create conditions for renewed agricultural production. The cash element for each of the programs will be financed through monetizing a significant percentage of the food.

The propose food and cash-for-work activities will have sizeable cash components as follows:

CARE

a) **Cash-Wage Component**

- Konar cash wage  
  Rs. 17,152,000
- Paktika cash wage  
  Rs. 21,920,000

b) **Materials and Tools for Projects**  
  Rs. 43,598,000

c) **Transportation Component**

- transportation of food  
  Rs. 4,800,000
- transport of construction materials and tools  
  Rs. 40,255,000

sub-total  
  Rs. 127,725,000

SCF

a) **Cash-Wage Component**  
  Rs. 4,696,000

b) **Materials and Tools for Projects**  
  Rs. 5,823,000

c) **Transportation Component**

- transportation of food  
  Rs. 5,600,000
- transportation of construction in materials and tools  
  Rs. 5,357,000

sub-total  
  Rs. 21,476,000

Three Afghan PVOs

a) **Cash-Wage Component**  
  Rs. - 0 -

b) **Materials and Tools for Projects**  
  Rs. 3,300,000
c) **Transportation Component**

- transportation of food 4,800,000
- transportation of construction materials and tools 3,202,000

sub-total Rs. 11,302,000

Total Rs. 60,503,000

Use of vegoil in USG-sponsored food-for-work activities has not yet been tried. With the recent arrival of 2,500 MT of vegoil that option will be explored. Because of its high value, vegoil may become an important element in food/cash-for-work activities in the future. This, however, will depend on our experience with a pilot commercial sales effort.

b. **Emergency Feeding**

Direct distribution was effective during the early years of USG involvement in the war, in minimizing the exodus of refugees and helping the war-affected inside Afghanistan. It allowed families to remain inside Afghanistan during the long winter months. Recent experience with this component shows that planning, delivery, distribution, monitoring, and accountability have become extremely difficult. AIG food committees have proven to be ineffective planning assuring appropriate end-use of PL 480 resources. GOP counterparts have had little influence in persuading Afghans to respond more fully accountability requirements. As a result, its use to deliver food aid has diminished sharply over the past year.

For these reasons, what was known as the Direct Distribution component of the PL 480 Assistance to War-affected Afghans was terminated in November 1990.

We believe that food-deficit situations inside Afghanistan will continue to occur, either as a result of political events or natural and man-made causes, and it is deemed to in the best interests of the USG to be able to respond to these situations quickly. For this reason the Mission has programmed a relatively small amount of PL 480 wheat in order to respond to these emergency situations on a case by case basis.

We emphasize the word "emergency" in this component and conclude from the arguments presented above that each request for emergency food in FY 1991 will be independently confirmed, evaluated, delivered, distributed, and monitored.
These programming actions will initially be undertaken directly by the AID Rep, and where possible, with qualified, high-level Afghans known to us and with impeccable credentials.

The Mission may want to turn this element over to CARE at some time in the future when workable systems have been put into place. What is clear at the outset for FY 1991, is that the USG, and not the GOP, will be in control of programming such exceptional deliveries. For programming purposes, we have projected that ten emergency situations will occur with a need for 200 MT of food for each, or 2,500 MT per year. The Mission will identify and approve a civilian shura who will distribute the food, prior to shipment, while monitors will accompany each shipment and report on distribution.

c. Commercial Sales

The Mission recommends that a Commercial Sales component be made part of the 1991 food assistance program as well as in the future. We do so for two reasons:

1) Evidence on wheat sold to Afghan traders under the pilot commercial sales activity suggests that commercial sales of PL 480 commodities are an effective way to increase the availability of food inside Afghanistan. Sales of vegoil in Quetta and Peshawar in December and January will hopefully provide similar evidence. The GOP has cooperated in allowing the sales transactions to take place in Pakistani rupees and has agreed to the use of sales proceeds to fund project-related cash needs in food-for-work programs undertake inside Afghanistan.

Available marketing data on vegoil show high probability of success with a floor price of approximately Rs 21.2 ($ .97) per kilogram.

2) The Mission's experience with the currently active CARE project has provided clear evidence that without sizeable cash components, these food/cash-for-work projects cannot operate; even those with a 100% food wage. In addition to a cash-wage component for skilled workers, and for areas in which the local wheat supply dictates this, there are cash needs for purchasing project-related materials and tools, and for transporting both the food and materials to project sites in Afghanistan.

Security conditions suggest that monetization of large quantities of foodstuffs inside Afghanistan is currently not a viable option. Instead, monetization should take place on the Pakistan side of the border and should be conducted in
the Commercial Sales mode (i.e., through auctions and hence into Afghan commercial market channels). Sales proceeds so realized can then be programmed from the special account to support the various food/cash-for-work reconstruction activities' cash needs, and to defray the costs of transporting emergency relief foodstuffs to their destinations.

This illustrates the interrelationships of the various elements and underlines the critical role the Commercial Sales components play in the successful implementation of the overall food assistance program. The mechanism adds to the total food availability in a food-deficit country while the sales proceeds enable essential food production-related rural infrastructure to be repaired by means of food/cash-for-work activities undertaken by a variety of PVOs in different parts of Afghanistan.

Moreover, commercial sales of food commodities do not generate disincentives to local wheat growers.

d. Material Child Health (MCH) and School Feeding

The Mission proposed, examined, and rejected these types of activities for FY 1991 funding. We have no experience with MCH or school feeding programs at this time in Afghanistan. All available evidence from experience elsewhere in the developing world leads us to believe it would be premature to even experiment with these types of programs at this time in Afghanistan. Our analysis indicates that with the intensive nature of programming, oversight and monitoring required, it is unlikely that either of these components will occupy a place in the FY 1991 food aid program. If unique situations come to light where either of these activities might be feasible in conjunction with food/cash-for-work programs, they may be supported in the outyears.

3. PL 480 Commodities and Program Support Required in FY 1991

For the analysis of experience with existing programs and in consideration of the prospects for political settlement inside Afghanistan, we conclude that a moderate food aid program is an essential ingredient of the AID/REP cross-border program and is in the USG interest. For FY 1991 the following elements are required:
a. Commodities

Because the required amounts of PL 480 wheat and vegoil for calendar year 1990 were simply added to the existing 1989 program, an exclusive PL 480 program for FY 1990 was not concluded. A balance of approximately 9,000 MT of wheat and 2,500 MT of vegoil are on hand for approved programs at the time of this writing. Given existing plans and projected draw-downs, we expect to have exhausted these commodities by June 1991.

In 1991 a total of 52,000 MT of PL 480 wheat and 2,000 MT of vegoil will be programmed in integrated program of commercial sales, food/cash-for-work and emergency food relief components. Vegoil will also be sold commercially and may possible be used -- on a pilot basis -- as part of a food wage in food-for-work programs. The breakdown of the PL 480 commodity requirements for FY 1991 are as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Wheat (MT)</th>
<th>Vegoil (MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food-for-Work CARE</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Food-for-Work SCF</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Food-for-Work PVOS/NGOs</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Direct Distribution</td>
<td>- 0 -</td>
<td></td>
</tr>
<tr>
<td>Emergency Feeding</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Commercial Sales</td>
<td>20,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Monetization for Program</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Activities</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>52,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

The Mission intends to retain flexibility within the overall totals in order to respond to priority needs when these arise and make internal adjustments as the evolving situation requires and warrants.

Monetization of 40,000 MT of wheat and 2,000 MT of vegoil should generate sales proceeds of Rs 167,620,000, from which total program-related local currency requirements of Rs 164,503,000 (including Rs. 4 million required to transport 2,500 MT of emergency food destinations inside Afghanistan) can be met.

b. Commodity Transportation

Karachi Port located at the mouth of one of the Indus River tributaries, and Port Qasi, 20 kilometers away, handle almost all ocean imports to Pakistan, including PL 480 commodities. The daily evacuation capacity of large grain-
carrying ships there is about 5,000 MT. Port authorities recommend that if possible we do not use large supertankers for hauling grain because the process of unloading their numerous compartments involves lengthy and costly equipment changes.

One the PL 480 commodity is offloaded at Karachi it can mode directly inland to provincial food department of A.I.D.-controlled warehouses by truck or rail (1,730 kilometers to Peshawar, 800 kilometers to Quetta). For PL 480 wheat all port handling shipping arrangements are made by the Ministry of Food and Agriculture (MINFA). The systems has worked well for several years, with the GOP consistently delivering wheat to its provincial food department warehouses in Baluchistan and the NWFP. To assist the provincial food departments in their record-keeping we furnish key officials in Islamabad and the provincial centers with our monthly offtake and inventory data.

For the initial vegetable oil shipment the MINFA requested the Chief Commissioner for Afghan Refugees (CCAR) to arrange inland transport from Karachi to storage points in Quetta and Peshawar. Warehousing has been undertaken by RONCO. This determination was made based on RONCO's experience with storing food, the higher value of vegetable oil, and because it is more susceptible to pilferage and fire than is wheat.

Although per kilometer rail transport costs continue to be less than those charged by truckers, the GOP's preferred shipment method is overland because of inherent delays in delivery by rail and the fact that trucks must inevitable be used at each end of the route to transfer the commodity (from shipyard to railcar and from railcar to warehouse).

During phase I of the Private Sector Cross-border Trade study, Nathan-Berger noted considerable spare private sector trucking capacity on both sides of the border. The Mission has visually confirmed this observation, on the Pakistan side at least, by the fact that about 30% of trucks on the Grand Trunk Road between islamabad and Peshawar are deadheading (carrying no freight) at any one time.

During Phase II of the above-mentioned study, Nathan-Berger found that of the 544,379 MT of target commodities, specified by O/AID/Rep, having been shipped from Pakistan into Afghanistan during 1989, 80% was traded by the private sector on privately-owned vehicles. Of the 544,378 MT total, 71% consisted of foodstuffs.
In addition to the private sector trucking fleet on both sides of the border, the Mission has access to the ACLU trucking fleet of 80 vehicles, plus the UN's UNILOG transport fleet, which has considerable excess carrying capacity because of the recent arrival of 100 new trucks and with little UN freight to carry inside Afghanistan.

c. Transportation Grant Requirement

The original transport grant provided in 1988 was $100 per MT. For the 1989 program this was reduced to $50 per MT; the GOP's actual costs were closer to $52 per MT on the average. Inflation and recent sharply increased fuel costs have raised these further for 1991 (we had no 1990 program), as per attached calculations (Appendix A).

(1) Wheat

Based on the best information currently available to the Mission, it will cost an average of $65.04 per MT to handle and ship wheat from Karachi to Peshawar, and $48.47 per MT to Quetta. Given the proposed allocation of wheat, weighted between Peshawar and Quetta at 2/3 and 1/3 respectively, the surface transport grant requirement for the wheat is as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quetta</td>
<td>$ 840,150</td>
</tr>
<tr>
<td>Peshawar</td>
<td>$2,275,550</td>
</tr>
<tr>
<td></td>
<td>$3,115,700</td>
</tr>
</tbody>
</table>

(2) Vegoil

The Mission does not have a detailed break-out between handling and shipments of either Peshawar or Quetta for recent vegoil shipment. However, based on information currently available from the GOP, it costs an average of $73.40 per MT to handle and ship vegoil to these two destinations. USAID/Pakistan has forecast a 16% inflation rate for 1991, which would increase this cost to $85.14. Therefore, the surface transport freight requirement for vegoil is as follows:

\[2,000 \times $85.14 = $170,280\]

(3) Total transport grant requested: $3,286,000

4. Possible Disincentives to Local Wheat Production

a. Food/Cash-for-Work

Of the total metric tonnage of wheat allocated to food/cash-for-work rural reconstruction activities, only
9,500 MT will be paid out in food wage components, mostly in locations far distant from each other. According to the table on in the preceding analytical section of this paper, Konar's 1989 wheat deficit was 16,000 MT Paktika was 24,000 MT and Zabul's was also 16,000 MT. Therefore, these 9,500 MT paid as food wages are unlikely to lead to local disincentives to food production.

Afghan NGOs/PVOs are still being identified and evaluated for proposed food-for-work programs, at an estimated 1,000 MT of wheat per PVO for three PVOs. The Mission will attempt to achieve a geographic spread for those activities, especially targeting provinces other than Kunar, Paktika and Zabul. One thousand MT of wheat per PVO are unlikely to constitute a disincentive to local production outside the traditional wheat-producing provinces.

b. Commercial Sales

The beauty of commercial food sales in a food-deficit country is that the disincentive-to-production issue does not arise, because this wheat goes through Afghan commercial channels and will find its way to where the trader can maximize profit and minimize risk. These are likely be the main wheat deficit areas. Given a projected country wide 1991 deficit of at least 200,000 MT, 40,000 MT of monetized wheat cannot possibly constitute disincentives to local wheat production in the aggregate.

There is also no disincentive with regard to local vegetable oil production. Cooking oil and ghee consumed in Afghanistan are all imported, as there exists as yet no edible oil extraction capability in the country.

5. Monitoring Requirements

As monthly and quarterly reports since 1987 have shown, monitoring the end-use of PL 480 resources inside Afghanistan has been a formidable challenge. In the early days of the food assistance program it was only possible to say that wheat went across the border to Afghanistan and did not come back. Today, with the vastly different political circumstances described above, the USG requires much more precise end-use data.

In order to build on experience and best meet the objectives of the food aid program, we are interested in where the food goes and who ends up consuming it. Obviously, with the large monetization component, the optimum amount of information we can expect will be on geographic distribution and price. For the smaller food-for-work element of the
program will be able to obtain information on geographic distribution, recipient groups and types of activity (road, mill, irrigation canal, etc.). For emergency distribution to vulnerable groups we will expect to collect data on need, delivery location, distribution method, and recipient categories (widows, orphans, war-wounded, returned refugees, elderly, etc.).

The reports generated by the various food program elements will be made available toAfghans, our GOP counterparts and to Washington. In FY 1991 monitoring requirements will be met in the following ways:

a. **Food/Cash-for-Work**

   We want to ensure that food/cash-for-work activities are well-managed and correctly targeted. To the extent possible we must measure the impact of the use of USG donated inputs in the areas of these construction activities. Because U.S. direct-hire personnel can not yet travel inside Afghanistan, we must rely on photographic evidence and reports prepared by non-U.S. and Afghan staff.

   Much of the feedback with regard to the performance of food-assisted projects will necessarily be focused on construction completed and how it has affected villagers' lives. Measurement of caloric intake or physical well-being as a result of the project will not be possible at this stage. As has been stated previously in this proposal, a key element in monitoring the food-for-work program includes watching local food prices, attention to supply and demand and not allowing local disincentives to wheat production to occur as a result of temporary and localized oversupply of wheat.

   All resources used in food/cash-for-work activities will be monitored by the sponsoring agency. CARE, SCF and any other PVO employed to undertake food/cash-for-work projects will be required to provide detailed information regarding use, quantity, location of use and description of the end user. This information will be provided in tabular format by type of activity (road, irrigation systems, warehouses etc.) and supplemented with a narrative section their quarterly reports. The reports will contain a section on progress and problems and will make recommendations on future food/cash-for-work activities. These reports will be consolidated by the Mission on quarterly basis in regular L 480 Quarterly Report.
b. Commercial Sales

Monitoring this component of the program is of recent vintage. The sales (floor) price and quantity of PL 480 wheat and vegetable oil which can and should be moved through this channel depend on many factors. Although we exercise no control on the destination of PL 480 commodities sold, we do want to monitor prices and geographical distribution to the extent possible and build on experience gained.

Development Alternatives Incorporated (DAI) currently is responsible for marketing research and conducting the sales of agriculture inputs under the Agriculture Sector Support Project as well as for PL 480 Title II commercial sales food inside Afghanistan. The conducted two successful sales of PL 480 wheat and have reported detailed information on one of the sales. This Mission proposes that in FY 1991 DAI will continue to sell PL 480 commodities and report on prices, geographical distribution, progress and problems and make recommendations for future sales. As an alternative to DAI we are also exploring, with RONCO, their possible handling of commercial sales, and with CARE for emergency food relief. As noted above, this information will be provided to Washington by cable and in the quarterly PL 480 food report.

c. Emergency Feeding

Emergency situations may require food as well as other (e.g., medical supplies, winter clothing) assistance. This channel for food distribution will be used only when fully justified. Initial assessment, recommendations, distribution, etc. for these situations will be handled by the Mission on a case by case basis.

Experienced, non-U.S. personnel and independent food monitors from RONCO or as part of the Mission's Data Collection and Analysis (DCA) unit, would be employed in carrying out the required assessment and end-use monitoring. Before any emergency food is dispatched, a distribution plan showing village names, locations, target population and local security conditions will be reviewed and approved by USG direct hire personnel. Monitoring end-use of the PL 480 commodities and/or other commodities involved would be based on the approved plan.

6. Risk Analysis

It is evident from the design of the program and foregoing analysis and discussion, that accountability regarding the use of USG-donated PL 480 resources will be
much easier than in the past. The difficult-to-account-for component of the program (direct distribution) has been terminated. We are requesting 2,500 MT of PL 480 wheat (less than 5% of the total) for possible use in more difficult-to-monitor emergency feeding components. However, we are confident that experienced Afghan and non-U.S. government personnel will be able to carry out the emergency distribution and strict end-use monitoring requirements built into the program.

We are proposing to program 49,500 MT of PL 480 wheat through food-for-work/monetization mechanisms. These activities are programmed to take place in the easier accessible eastern and southern provinces of Afghanistan where risks are fewer. CARE has proven that the end-use of USG-donated resources used in food-for-work activities is relatively easy to monitor.

With regard to monetization, the Afghan merchants involved take the lion's share of the risk. A high enough floor price is established which ensures that the wheat is not sold inside Pakistan, and the sales proceeds are in the bank before the commodity is released.

D. Program Issues

The only critical issue at this juncture does not relate to Afghanistan, but rather to Pakistan. Since the USG does not have bilateral relations with the current Kabul regime, the GOP has since the beginning of the PL 480 food assistance program been the Cooperating Sponsor for program commodities. Once commodities arrive at the port of entry, the GOP becomes their temporary owner until they are programmed for final destinations inside Afghanistan. This has worked well in the past.

Currently USG assistance to Pakistan is affected by the Pressler Amendment which requires a halt to all FY 1991 obligations to Pakistan. It remains to be determined by a legal ruling from Washington whether or not this affects the signing of the Transfer Authorization and Transport Grant with the GOP for its temporary ownership of the PL 480 commodities destined for Afghanistan.
Appendix A

1. Incidental Costs Incurred by the GOP for Handling and Storage of 1 MT of PL 480 Wheat

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wharfage</td>
<td>Rs. 13.92</td>
</tr>
<tr>
<td>Handling</td>
<td>32.63</td>
</tr>
<tr>
<td>Gunny bags</td>
<td>234.32</td>
</tr>
<tr>
<td>Department Charges (MINFA FD)</td>
<td>8.47</td>
</tr>
<tr>
<td>Operational Charges (Bag Losses)</td>
<td>.23</td>
</tr>
<tr>
<td>Local Movement Charges</td>
<td>7.19</td>
</tr>
<tr>
<td>(spotting of transportation)</td>
<td></td>
</tr>
<tr>
<td>Stevedoring</td>
<td>63.80</td>
</tr>
<tr>
<td>Shortages</td>
<td>.23</td>
</tr>
<tr>
<td>Interest</td>
<td>83.00</td>
</tr>
<tr>
<td>Storage Charges (6 mos.)</td>
<td>46.40</td>
</tr>
</tbody>
</table>

Total combined handling costs per MT Rs. 490.19 or $ 22.50

2. Incidental Costs Incurred by the GOP for Handling and Transportation of 1 MT of PL 480 Vegoil

Vegetable oil is more expensive to handle and transport than is bulk wheat. We do not have a detailed breakdown of the individual handling and transportation costs of the recent 2,500 MT vegoil shipment (as part of the 1989 program). However, a 50% progress payment claim by the GOP for port handling and transport to Peshawar (2/3 of total) and Quetta (1/3 of total amounted to Rs. 2,000,000. This translates to an average cost of handling plus transport of $73.40 per metric ton.

3. Representative Transportation and Handling Costs Per Metric Ton of PL 480 Wheat

Karachi-Peshawar (1,730 km)

<table>
<thead>
<tr>
<th></th>
<th>Via Rail Only</th>
<th>Via Road (NLC)</th>
<th>Via Road (Private)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>Rs. 650.31</td>
<td>1,255.00</td>
<td>881.25</td>
</tr>
<tr>
<td>Handling</td>
<td>490.19</td>
<td>490.19</td>
<td>490.19</td>
</tr>
<tr>
<td>Total</td>
<td>Rs. 1,140.50</td>
<td>1,745.19</td>
<td>1,371.44</td>
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<tr>
<td>$</td>
<td>52.31</td>
<td>80.05</td>
<td>62.91</td>
</tr>
</tbody>
</table>

Average (Rail/NLC) $66.18 weighted at .667 of Average (Rail/NLC/Private $65.09 total average cost