

PD-AAA-900

52871

AID 1025-17 (7-73) (NARRATIVE DESCRIPTION)

PROJECT NO. 806-51-150-139	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-76	PAGE COVER of 17 PAGES
-------------------------------	--	----------	-----------------	------------------------

PROJECT REVIEW PAPER (PRP)  
 INTEGRATED AGRO-BUSINESS SYSTEMS  
 806-51-150-138

KABUL, AFGHANISTAN  
 January 22, 1976

PROJECT NO.	306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE <u>1</u> of <u>17</u> PAGES
-------------	----------------	--	----------	-----------------	----------------------------------

**PROJECT REVIEW PAPER (PRP)  
INTEGRATED AGRO-BUSINESS SYSTEMS  
306-51-150-138**

TABLE OF CONTENTS

	<u>Page</u>
<b>I. SUMMARY</b>	<b>1</b>
A. Summary Information	1
B. Project Description	1
C. Financial Data	2
<b>II. PROJECT DESIGN</b>	<b>3</b>
A. Program Goal and Phase I. Targets	3
B. Project Purpose, Targets, Indicators, Intended Beneficiaries, Assumptions	
C. Project Outputs	6
D. Inputs	7
E. Rationale	8
<b>III. PROJECT PREPARATION PLAN</b>	<b>9</b>
<b>IV. PROJECT ANALYSIS</b>	<b>10</b>
A. Background	10
B. Economic Analysis	14
C. Financial Analysis	16
 <b>ANNEX A - Survey Team</b>	
 <b>ANNEX B - Brief Descriptions of Two Agro- Businesses</b>	

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 1 of 17 PAGES
-------------------------------	--	----------	-----------------	--------------------

**PROJECT REVIEW PAPER (PRP)**

**INTEGRATED AGRO-BUSINESS SYSTEMS**

306-51-150-138

**I. SUMMARY**

**A. Summary Information**

Country: Afghanistan, Ministry of Commerce, Department of Export Promotion

Obligation from FY 1976 to FY 1979

Implementation from FY 1976 to FY 1979

**B. Project Description**

This project will identify, develop, and implement three small-scale, labor-intensive, vertically integrated agro-businesses. Each of these businesses will be partly experimental, each replicable, each commodity and area specific, and each demonstrational. The project will be concerned with total production, processing, and marketing systems. It will address the providing of inputs -- e.g., technical information, credit, fertilizer -- to the project participants. It will develop an organizational arrangement -- e.g., producers' associations, cooperatives -- which will channel the bulk of the net benefits to the project participants. The commodity selected for an agro-business will be expected to: (1) possess a high potential for increased efficiency in its production at the farm level in a manner attractive to small farmers; (2) be labor-intensive in its production and/or processing; (3) require minimal capital to its processing; and (4) present opportunities for improved prices as a consequence of quality processing. Production will be export oriented since domestic markets are thin, especially for commodities which depend on extended processing for marketability.

The demonstration function that the project is to perform is crucial. The pilot project, experimental in nature, should be grant-financed. The pilot project must be designed so as to be replicable. There is not much hope of substantial replication --

PROJECT NO.	306-51-150-138	SUBMISSION	(Number)	DATE	
		<input checked="" type="checkbox"/> ORIGINAL	<input type="checkbox"/> REVISION	1-22-75	PAGE 2 of 17 PAGES

nor should there be -- unless the project yields substantial net benefits. That the project is yielding these benefits will have to be clearly demonstrated to other farmers for the replication to take place. It is expected that replication would require loan financing.

This project is viewed as the long-run integrative element of USAID rural development assistance to Afghanistan. As various other projects, particularly rural works, small irrigation systems, non-formal education and rural electrification (if it happens), move beyond the initial phases of trial and error and institutional capability development, there is considerable logic in trying to pull them together with agro-business enterprise to exploit the improved social and physical infrastructure. Although much remains to be done to achieve this ideal, the long-run objective is to coordinate these projects on an area or agro-activity basis.

### C. Financial Data

#### 1. Total Project Cost Table -- Thousand Dollars

	<u>Fiscal Years</u>				<u>Total</u>
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	
GOA	20	200	120	150	490
USAID	526	537	300	98	1,461
Other Donors	-	-	-	-	-
<b>TOTAL</b>	<b>546</b>	<b>737</b>	<b>420</b>	<b>248</b>	<b>1,951</b>

#### 2. AID Project Cost Table -- Thousand Dollars

	<u>Fiscal Years</u>				<u>Total</u>
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	
<b>1. Personnel</b>					
U.S. direct hire (1)	59	50	43	56	208
Institutional contract (4)	420	280	210	-	910
<b>2. Participant Training</b>					
Direct (16)	7	7	7	7	28
<b>3. Commodities</b>					
Direct	35	150	30	25	240
<b>4. Other Costs</b>	<u>5</u>	<u>50</u>	<u>10</u>	<u>10</u>	<u>75</u>
<b>5. Total</b>	<b>526</b>	<b>537</b>	<b>300</b>	<b>98</b>	<b>1,461</b>
Direct	(106)	(257)	(90)	(98)	(551)
Contract	(420)	(280)	(210)	-	(910)

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 3 of 17 PAGES
-------------------------------	--	----------	-----------------	--------------------

## II. PROJECT DESIGN

### A. Program Goal and Phase I. Targets

#### 1. Program Goal

To develop and demonstrate economically viable labor-intensive rural enterprises which will give good distribution of the rewards of productivity increase, and to explore systems for replicating these demonstration efforts.

#### 2. Phase I. (end of project) Targets

- a. Enterprises are operating at a profit.
- b. Farmers are enthusiastic.
- c. GOA is developing a system of replication.

### B. Project Purpose, Targets, Indicators, Intended Beneficiaries, Assumptions

#### 1. Project Purpose

- a. To demonstrate the positive impact of integrated agricultural production, processing and marketing upon net farm income and rural employment.
- b. To test organizational arrangements -- e.g., farmer organizations.

#### 2. Targets

	<u>FY 1977</u>	<u>FY 1978</u>	<u>FY 1979</u>
a. Increase in income of project participants.	\$10,000	\$100,000	\$180,000
b. Rural people directly benefiting.	1,000	6,000	9,000
c. Percent of increased income to people in bottom two-thirds of income class.	70%	75%	75%
d. Three agro-businesses established in FY 1977.			

e. An organizational arrangement established which channels the bulk of net project benefits to the project participants (1979)

f. An Afghan capability developed to replicate the agro-businesses (1979)

g. Four or more replication opportunities identified with foreign assistance arranged to finance their implementation (1979)

### 3. Indicators

a. For increase in income of project participants:

(1) Increase in net income of participating farmer-producers, as a result of participation; plus

(2) Increase in wages paid by participating farmer producers; plus

(3) wages paid by the agro-business; plus

(4) Increase in labor earnings of participants processing commodities outside the processing plant, e.g., the weaving of cloth at home. Increased labor earnings would be the sale price of the processed commodity less the value of the material going into the commodity --i.e., the value added -- less the amount that such labor earnings would have been in the absence of the project.

For (2) and (3), some allowance would have to be made for the wages that the employees would have earned in the absence of the agro-businesses. This could be estimated from the data that would be obtained from the progress reporting system that is to be devised.

b. For rural people directly benefitting: actual counts, and if necessary, supplemented by extrapolations on sample data.

c. For percent of increased income going to people in bottom two-thirds income class: some technique would need be devised to estimate this. It might be a visual inspection of homes matched against payments to the homes' residents. It could be safely assumed that all labor payments would be to the lower income class. Under cooperative arrangements, forms of a sort would probably be devised for signatures of members. Perhaps a question or two could be included which would indicate relative wealth.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION	(Number)	DATE 1-22-75	PAGE 5 of 17 PAGES
-------------------------------	--	----------	-----------------	--------------------

d. For an organizational arrangement which passes on to the participants the bulk of the project benefits, if cooperative arrangements will work and are used, this potential problem would seem to be solved. If there should be private or government ownership of the processing plant, access to the plant's income statement would be required to make a determination.

e. For an Afghan capability developed to replicate the agro-business, probably the judgment of the project manager and the U.S. advisors would have to be relied upon.

#### 4. Intended Beneficiaries

The major intended beneficiaries are lower income, rural families. Sub-projects are to be identified and designed to specifically address this issue. As an example, the sheep project discussed later seems to hold considerable income promise even if the integration were extended no further than mutton production. While it might, it is, nevertheless not clear that such an activity would yield most of its benefits to the lower income farmers. The addition of other processes like wool-scouring, preparation of casings for export and pickling of hides would add some employment, but not a great deal it would seem. It is, therefore, important that the weaving of wool cloth and/or rugs and carpets be recognized as an important component of a sheep project, since the weaving could be a highly labor-intensive source of employment to members of lower income families. Thus, a sheep project would need to be designed to address barriers -- such as lack of know-how, lack of appropriate looms, etc. -- that might prevent participation by poorer families. Another agro-business (discussed later) that seems promising is the production and dehydration of onions. This project can provide substantial employment at the production level (less at the processing). Production could also be highly mechanized, including mechanical harvesters. USAID should not finance a project which employs highly-mechanized production techniques when there is substantial labor available, including that of the members of bazgars' (sharecroppers) families to do the job. These issues need to be addressed in the project design as do other barriers to small farmer participation.

#### 5. Assumptions

a. That Afghan farmers and their families will respond to monetary incentives.

b. That Afghan farmers will adopt new techniques of production and will incur the added cost that the adoption may require if convinced through demonstrations that the risk of loss is negligible, that the probability of gain is high enough and that the barriers to adoption (e.g., credit) are removed.

PROJECT NO. 306-51-150-138

SUBMISSION

(Number)

DATE 1-22-75

6

17

PAGE \_\_\_\_\_ of \_\_\_\_\_ PAGES

c. That the agro-businesses can maintain self-imposed quality standards.

d. That the needed equipment will be available for import.

e. That export channels will remain open.

f. That the needed technical assistance will be available.

g. That interministerial relations will remain on a high enough level of cooperation to permit the attainment of the project purpose.

#### 6. Relationship of Project Purpose to Achievement of Sector Goal

The long-range sector goal is accelerated growth in the real per capita income of the rural lower income classes, through increases in their productivity and employment and improved prices for commodity output. The relationship between this goal and the ultimate project purposes is direct. In the short-run project, purposes are to demonstrate integrated agro-business and to test organizational arrangements which channel the bulk of the net benefits to the project participants so that when the (grant-financed) pilot project ends, the agro-business established by the project can and will be replicated. If the replications are successful, they will contribute to the achievement of the sector goal.

#### C. Project Outputs

1. Three operating, vertically integrated agro-business systems emphasizing to the extent feasible labor-intensive methods of production and processing, designed to encourage participation by low-income rural families.

2. Export markets identified and contracts made with foreign importers in these markets for purchase of the output of the agro-business.

3. Optimal transportation modes and routes to the export markets determined and in use.

4. Waste-free packaging methods for preparing commodities for shipment worked out and in use.

5. Approximately 15 Afghans, counterparts of the expatriates, trained (on the job) and capable of replicating additional agro-businesses.

6. A minimum of 600 non-participating farmers will have observed, through demonstrations, the operations of agro-business.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 7 of 17 PAGES
-------------------------------	--	----------	-----------------	--------------------

7. A system developed for providing inputs (technical information, credit, etc.) to participants of the agro-businesses.

8. A detailed operational manual prepared for each of the three agro-businesses.

#### D. Inputs

##### 1. GOA

The USAID will grant-finance 75 percent of the costs of project cost and the GOA will contribute 25 percent. The GOA will provide three counterparts for the project manager, two for the producers' association expert, and three each for the U.S. advisors to the three agro-business managers, amounting to 48 man-years during the project life. It is expected that the counterparts for the project manager will be assigned at the beginning of the first quarter, FY 1976. The remaining counterparts would be assigned upon the arrival of the contract team expected a year later. In addition, technical assistance in agricultural extension, carpet weaving/design, etc., will be provided. The GOA will provide equipped office space for the contract team; land for building sites; repair, maintenance and fuel for the contractors and for vehicles which will be utilized in the project. It will provide local construction material (cement, bricks, poles, rock) and provide for the construction of buildings. While the GOA inputs will be worked out in more detail and with more accuracy as agro-businesses are identified and implemented, the GOA input now is estimated at \$490,000 over the project life.

##### 2. USAID

The USAID will provide a direct-hire project manager who is expected to arrive at post on or about July 1, 1975. USAID will also provide four contract personnel who are expected to arrive on or about July 1, 1976. One of the contractors will be an expert on producers' associations and will serve in an advisory capacity to the Department of Cooperatives Development in the Ministry of Agriculture and Irrigation. He will be based in Kabul. The other three contractors will serve in an advisory capacity to the three managers of the agro-businesses. We have in mind generalists with successful experience in business management. These three advisors would spend most of their time in the areas where the agro-businesses are located.

Transportation will be required and we have provided for three vehicles in the cost table. It is conceivable that surplus vehicles could be obtained or that vehicles could be leased from and maintained by a local firm. Lower-cost alternatives to the purchase of new vehicles will be investigated. The USAID will provide other commodities. These will include some non-local building materials, processing equipment and supplies, for example, such as those needed for drenching,

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 8 of 17 PAGES
----------------------------	--	----------	-----------------	--------------------

vaccinating and dipping sheep. The bulk of the imported commodities is expected to arrive in the second quarter of FY 1977. The USAID contribution is now projected at a total of \$1.461 million over the project period with over 60 percent for institutional contract personnel.

It is expected that the project manager and the contract personnel, along with some occasional TDY assistance from AID/W, will be able to implement and monitor this project.

### E. Rationale

The Afghan economy is predominantly rural; including livestock, agriculture accounts for at least 50 percent of the country's GNP. In addition, a good part of the value added by industry, transport and trade is on commodities originating in the agricultural sector. It has been estimated that 75 percent of the labor force is directly engaged in agricultural production and that 85-90 percent of the population lives in rural places.

There is some regional specialization in production. There are also commercial farmers. The evidence, however, is that most farmers are basically subsistence farmers who aim at producing enough food, in both a quantity and variety sense, to be essentially self-sufficient. Some writers/observers place underemployment of farmers at a very high level. While we cannot be certain that this is true, it is not unreasonable to assume that the rural productivity of the country is pitifully low. In good harvest years, for the group referred to as basically subsistence farmers, there are slight surpluses which typically are sold, bartered for tea, salt and the limited necessities not produced; in poor harvest years, the position of some of these farmers is reversed -- rather than being on the supply side of the market, they find themselves on the demand side. This situation aggravates price movements; in years of scarcity there is a larger number of demanders than in years of plenty. Contributing to price instability also is the fact that relatively large numbers of the non-farm population have ownership rights in family farms from which some portion of their food is ordinarily provided. The very low purchasing power of the people also makes it difficult for the internal market to absorb increases in supply without an accompanying sharp drop in prices to producers. Except for crops that have fixed producer prices (cotton and sugar beets), established export outlets (as for raisins) or a developed national market (as for wheat), the Afghan market is not well enough developed to cope with local surpluses -- except through severely depressed producer prices. Thus, there are a number of problems associated with producing for the domestic market with its very low purchasing power and for which a relatively small increase in production leads to a relatively large decrease in price. The major growth opportunities appear, then, to be in producing for the export market.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 9 of 17 PAGES
-------------------------------	--	----------	-----------------	--------------------

Even for the existing export market, with the major exception of hand-woven rugs and carpets, Afghanistan's exports, while varied, are generally little processed, primary commodities. Thus, hides are exported, not leather. Nuts are a relatively important export and most are exported unshelled. Oilseeds are exported as are raw cotton and raw wool, the latter being ungraded, uncombed, and cold-scoured. Other important export items include natural gas, karakul pelts, fur skins, and fresh fruits. A major export is raisins and while a number of new raisin-washing plants have recently been established in Afghanistan, quality control is still pretty much a foreign concept. Mainly because of this, food exports are predominantly to neighboring countries whose sanitary standards are similar to those of Afghanistan's. For example, in 1352 (1973/74) 85 percent (by both weight and value) of all food exports (fresh and dried fruits, nuts, and herbs), were exported to three countries -- the USSR, India, and Pakistan. Almost all wool (except for a small amount of cashmere) is exported to the USSR. The quality of the wool is reported to be decidedly inferior, unsalable in Western markets. The major exports to the West are "luxury" items -- karakul pelts and rugs and carpets. These items fetched \$31.3 million in foreign exchange in 1352 (1973/74), almost all from Western countries.

While Afghanistan exports raw cotton, it imports substantial amounts of cotton fabrics, yarn, and thread -- \$3.2 million in 1351 (1972/73), the latest available data. Imports of cotton, wool, linen, and hemp textiles, yarn, and thread amounted to \$18.0 million.

Thus, while there is substantial rural underemployment and unemployment in Afghanistan, the value added to agriculture's output -- comprising 50 percent of GNP -- is low. There would appear to be real opportunities for extending the processing of agricultural commodities and producing added quantities for the export market.

### III. PROJECT PREPARATION PLAN

<u>Date</u>	<u>Action or Event</u>
1. As soon as feasible	Obtain AID/W permission to engage a (project development-funded) survey team to ascertain the feasibility of three or four tentatively identified agro-businesses.
2. As soon as feasible	Prepare scope of work for survey team for submission to AID/W.
3. April 1, 1975	Survey team arrives at post.
4. July 1, 1975	Project manager arrives at post; counterparts assigned.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 10 of 17 PAGES
-------------------------------	--	----------	-----------------	---------------------

<u>Date (cont'd)</u>	<u>Action or Event</u>
5. July 31, 1975	Survey team completes feasibility studies; makes recommendations.
6. October 31, 1975	PP pouched to AID/W.
7. December 31, 1975	PP approved by AID/W.
8. January 31, 1976	Project Agreement signed by GOA.
9. February 29, 1976	PIO/Cs and PIO/Ts prepared, sent to AID/W.
10. March 1976	Three vehicles ordered; AID/W begins search for the four contract advisors.
11. July 1, 1976	The four contract personnel arrive; counterparts assigned.

After the contractor personnel arrive, project implementation will proceed according to the particular activity with which each will be engaged. For sub-projects requiring imported equipment, bids would be let in fall-early winter of 1976. Construction would also start at this time.

#### IV. PROJECT ANALYSIS

##### A. Background

##### 1. History

In late 1973 the Mission held a series of meetings to interpret the intent of Congress as expressed in the new 1973 FAA and to examine the Mission's program in light of this interpretation. From these meetings came a concentrated effort to develop a list of projects (project ideas) which conformed to the spirit of the new legislation and which were in line with the GOA priorities as well. Task forces were formed, project proposals were submitted and evaluated and most of them were discarded. Discussions were held with the GOA to confirm their true interests. The process produced an idea for a vertically integrated agro-business project. The proposal was included in the July 1974 Field Program and Budget Submission, FY 1976. Since that time the GOA has continued to express its strong interest in this area.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 11 of 17 PAGES
----------------------------	--	----------	-----------------	---------------------

## 2. Cooperating Country Activity in the Project/Program Area

The Government has been engaged in agro-industry for some time, particularly in textile production and cotton ginning. The Government also refines vegetable oil (from cottonseed), has a slaughterhouse, mills flour, bakes bread, cans fruit, stores wheat, manufactures and imports and distributes fertilizer, produces silkworm eggs for distribution to farmers, has poultry enterprises and a vertically integrated dairy enterprise. With few exceptions, the Government has not been notably successful as an entrepreneur. Some cotton gins for example, have operated at a fraction of capacity for a number of years as have vegetable oil refineries.

The Government is now expanding a textile plant and plans to expand one or two more. It has announced that two new textile plants are to be constructed. There is substantial talk of expanding sugar and urea manufacturing capacity. It intends to construct a sheep slaughterhouse in Herat (IBRD-financed project). The FAO is financing the construction of a wool-scouring plant in Kandahar. Preliminary discussions have been held with the Bulgarians concerning the establishment of agro-businesses. One trade expert (UNIDO) is assisting the Ministry of Commerce in trade promotion and the Ministry has been discussing the establishment of further agro-businesses. In January or February, a UN expert in quality control and grading standards is scheduled to arrive in the country. The Government is now exploring a grading system for raisins in an attempt to improve quality. The incentive is improved export prices and the activity has been spurred by recent adverse publicity received on raisin exports to (West) Europe. The raisins, on European standards, were decidedly inferior. The Government, too, is in the fertilizer business -- from production to retailing to farmers. It also produces seed wheat for distribution to farmers.

In the private sector, there are a number of (mostly very small) agro-businesses -- raisin cleaning and packing plants, casing processing plants, a large number of flour mills, hide pickling plants, slaughterhouses (stalls with slaughter of up to perhaps three sheep daily), etc. Thus, many precedents exist and traditions are established which can be built upon.

## 3. Prior AID and Other Donor Experience in Program Area

USAID provided assistance to two vertically integrated agro-businesses (government enterprises) in Lashkar Gah. One was in poultry and one in dairying. Neither project was particularly successful because of inadequate attention to all aspects of a business operation, including market, reliable supplies, quality control, etc.

PROJECT NO.	306-51-150-138	SUBMISSION	(Number)	DATE	PAGE	13	of	17	PAGES
		<input checked="" type="checkbox"/> ORIGINAL	<input type="checkbox"/> REVISION	1-22-75					

USAID provided technical assistance to the GOA in the private enterprise area for a number of years. Advisory services were provided in the establishment of a number of agro-businesses, mainly raisin-cleaning plants and animal casings export firms. A number of these firms are doing well. The British-financed cotton gin and vegoil refinery at Lashkar Gah have been underutilized until this year because cotton was not produced in sufficient quantities in the area. Currently, however, operations are at full capacity. A textile plant (PRC-financed) has performed unusually well (because of good management) by almost any standard; another (FRG-financed) has performed well. Two French-financed textile plants were equipped with looms that produced only wide cloth which Afghans would not purchase except at a much discounted price. The Czechoslovakian-financed fruit-canning factory in Kandahar -- completed in 1962 at a cost of over a million dollars -- was a failure. It "is probably the least well-conceived processing facility in the country"<sup>1/</sup> and plans for supplies of raw materials were also deficient. The flour milling component of the FRG-financed silo at Kandahar has yet to be used (and one questions that it should be). When the USSR-financed urea fertilizer plant in Mazar finally began producing, there were no containers available for bagging.

The experience of donor efforts in agro-industry has been mixed, but the efforts generally would have to be judged as not overly rewarding. Linkages were assumed to exist (or hoped to exist -- pasteurized milk would be a desirable product) which turned out to be weak or non-existent. Thus, cotton gins and vegoil refineries were put in place but no provisions made for supplies of cotton or cottonseed to process; textile plants equipped with looms were producing wide cloth unacceptable to Afghans; a canning factory was constructed but there were serious deficiencies in raw material supplies as well as little or no domestic demand for the processed output; and poultry and dairy enterprises were built to produce for a hoped-for market that did not materialize.

Some of the poor performance was and is clearly due to poor Afghan management and bureaucratic procedures. The striking feature which is as much a matter of design as management and bureaucracy, is the apparent lack of attention to overall detail. Most of these projects appear to have emerged from the historical urge of the donors and the GOA to spend money. Construction of processing facilities was initiated with the hope that the problems could be worked out. The project proposed in this paper, it is hoped, will build on these mistakes and experiences and try to avoid attempts at great leaps forward; export or established domestic markets will be tapped, the processing facility will be modest and related to existing productive capacity, etc.

---

<sup>1/</sup> Planning Study of the Agricultural Sector of Afghanistan, Vol. II, Robert R. Nathan Associates, Inc., Washington, D.C., December 1971 (p.121).

PROJECT NO. 206-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 13 of 17 PAGES
-------------------------------	--	----------	-----------------	---------------------

#### 4. Studies Completed or In Process, Relating to the Project

No formal studies have been made specifically for the project. The Mission is requesting a team to conduct a study. Past reports related to the project include:

- a. Planning Study of the Agricultural Sector of Afghanistan, Volumes I, II and III, prepared for the Asian Development Bank and the Government of Afghanistan by Robert R. Nathan Associates, Inc., Washington, D.C., December 1971.
- b. Developing the Herb Industry of Afghanistan, prepared for the Ministry of Commerce, Government of Afghanistan, under a USAID contract by Thomas H. Miner and Associates, Inc., Chicago, Illinois, June 1968.
- c. Herat Livestock Development Company, Background Paper on the Establishment of an Export Slaughterhouse for Sheep, Danish International Development Agency, 1973.
- d. IBRD Appraisal of a Livestock Development Project, Afghanistan, IBRD report number 56-a-AF, March 1973.
- e. Verbatim Report, 1974 Conference of Sulfiana (Raisins) Producing Countries, Melbourne, Australia, June 1974.
- f. Review and Documentation of the Private Enterprise Program in Afghanistan, 1964-74, by C. H. Zondag, Agency for International Development, Kabul, Afghanistan, June 30, 1974.
- g. Report on Development of Food Industries in Afghanistan, by L. Markin, food industry expert (UNIDO), Kabul, Afghanistan, August 1972.
- h. The Improvement and Development of Marketing Table Grapes, and Raisins in Afghanistan. Report to the Government of Afghanistan, FAO, Rome 1972.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 14 of 17 PAGES
-------------------------------	--	----------	-----------------	---------------------

i. Report on Agri-Business Research Study, prepared under USAID Contract Nesa-526, Cheechi and Company, Washington, D.C., Kabul, Afghanistan, September 1974.

j. Various reports by Harold W. Pillsbury, Plant Science Advisor, USAID and Asia Foundation.

#### 5. Views of the Country Team and Other Donors

The Country Team believes the project to be a promising one and this view is shared by other donors.

#### 6. Project Development Team

The USAID Project Development Team is composed of the Program Economist, the Food and Agricultural Officer and staff members of the Office of Capital Development.

### B. Economic Analysis

Less is known about the income distribution of the rural population in Afghanistan than is desirable. The available information suggests, however, that the vast majority is very poor. Thus, Whiting and Hughes <sup>1/</sup> note that income and land ownership are positively skewed and that there are relatively few farmers who score high on the variables; the mean values presented in their report give a "somewhat overly optimistic picture for the majority of the populace, many of whom must be subsisting at close to starvation levels." <sup>2/</sup> The mean net farm income plus other income reported was Afs 24,730 per farm family. Eleven percent of the sample <sup>3/</sup>

<sup>1/</sup> Whiting, Gordon and Hughes, Rufus, The Afghan Farmer: Report of a Survey, Robert R. Nathan Associates, Inc., Washington, D.C., October 1971.

<sup>2/</sup> Ibid, p. 17

<sup>3/</sup> Of the sample villages, a "virtual census of farm decision-makers was obtained." The sample consisted of 718 decision-makers -- 81 landlords, 438 owner-operators and 199 renter-sharecroppers. The sample villages were located in the following provinces: Kandahar (south); Laghman and Nangahar (east); Parwan and Ghazni (near Kabul); and Kunduz and Baghlan (north).

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 15 of 17 PAGES
-------------------------------	--	----------	-----------------	---------------------

was composed of landlords. (When these are removed the average net farm plus other income of owner-operators and renters/sharecroppers was Afs 21,565 per family. There was an average of 9.3 members per family, giving an average of Afs 2,600 or around \$35 per person. The average for the East and Central areas was lower; for the North and South, higher. Other studies generally support the above magnitudes and these figures have not changed significantly since 1970 when the data were gathered. These levels of income make the great bulk of the rural population a legitimate target group for USAID projects, with special emphasis directed at reaching the "lower" income groups.

The major intended beneficiaries of this project will be the rural people who participate in the project's activities. Rough estimates have been made of the benefits of some sub-projects which may prove feasible. The estimates, it is stressed, are rough and have been made in the absence of some crucial information. For the pilot activities that we are now thinking of -- a sheep and dehydrated onion project, both described briefly later, and perhaps the hand-weaving of silk or cotton textiles -- we have projected that there will be perhaps 1,000 direct beneficiaries in FY 1977, increasing to 6,000 and 9,000 respectively in the following two years. It is estimated that net farm and labor income directly attributable to the project will increase by around \$10,000 in FY 1977, perhaps by \$100,000 in FY 1978 and by \$180,000 in the following year. Some of this will very likely accrue to higher income farmers but most will go to low income rural people. While \$180,000 is a small amount, when divided among the estimated 9,000 direct beneficiaries, it will amount to an average of \$20 each, a sizable sum relative to the \$35 per person mentioned earlier. The project will stress providing productive, remunerative employment opportunities for rural families, not just the heads of households. The project will produce a demonstration effect on surrounding farmers and rural families and as such be a force for changing traditional ways of thinking and of doing things. It will be a modernizing influence but will not require large inputs of capital.

The impact of this small experimental project on the economy as a whole will be negligible and indicators sensitive enough to measure the impact at the macro level do not exist. However, at the end of the project period the country will have as part of its stock of development opportunities, projects that can be replicated -- and some indigenous capability to, in fact, replicate. The projects to be replicated will have developed an organizational arrangement aimed at enhancing social equity; an arrangement for improving the productivity and employment opportunities of the lower, more disadvantaged segment of the country's rural population. Thus, the replicable development stock will be composed of projects oriented toward small-scale, quick payoff, manageable activities that are labor-intensive and are aimed at drawing the

PROJECT NO. 306-51-150-139	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 16	of 17	PAGES
-------------------------------	--	----------	-----------------	------------	----------	-------

less privileged rural people into participating -- as both contributors and beneficiaries -- in the development process. The quality and appeal of rural life should be enhanced by the project and the lure of the urban centers reduced.

### C. Financial Analysis

The USAID will grant-finance 75 percent of the project costs during the project life, or Phase I, of the program. If Phase I is successful, the project's replication likely would require loan financing. The projected GOA costs over the project life amount to a total of \$490,000, with a maximum of \$200,000 in 1977. The GOA has set a tentative minimum of Afs 3 billion as its development expenditures out of its own budget (i.e., excluding project assistance) for 1354 (1975/76). The \$200,000 for 1977 is only 0.4 percent of the (tentative) development budget for 1354 (1975/76) and is clearly manageable.

### D. Social

The cultural factors impinging on development are probably not greater in Afghanistan than in most RUDCs. The socio-cultural system is adapted to subsistence, to nearly autonomous village economic operations. While there is a pervasive Islamic perception of the obligation of the rich to help the poor, there is at the same time an element of egalitarianism and a belief in the value of the individual. The poor man accordingly sees himself as having the same intrinsic human value as the wealthy man.

The project activities envisaged in this paper will require an organizational arrangement that either provides a bundle of inputs to the project participants or is responsible for coordinating the provision by others. The activities will also require an organizational arrangement to provide a direct linkage between the project benefits and the participants, i.e., to assure that the bulk of the benefits will accrue to the participants. A producers' association or farmers' cooperative which owns its own processing plant is an arrangement that could provide both these functions. As is noted in the draft DAP for Afghanistan, there is a tradition of and numerous indigenous institutions for cooperative action. They include the building and maintenance of irrigation systems, systems of water distribution, pasture use and changes in cropping patterns as they relate to systems of fallow land, mosque building, trail or road building and maintenance. This is not to suggest that cooperative efforts and institutions are not used and manipulated for personal gain by those with power, or that cooperation does not break down in the face of inter-kin group disagreements or hostilities. But the element of community cooperation is strong and may be expressed in religiously defined or sanctioned terms, religion being the commonly expressed basis for legitimate action. The power structure, as suggested, must function within the context of these cooperative institutions and values.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 17 of 17 PAGES
-------------------------------	--	----------	-----------------	---------------------

### E. Administrative Analyses

The legal statutes that may be relevant to the operation of the project will have to be carefully reviewed. The review would include the transportation agreements with neighboring countries, especially Iran. Important regulations of the expected importing countries will also have to be reviewed. Before a new private industrial enterprise can be established, the Investment Committee's approval must be obtained. This potential source of uncertainty will be removed by provisions in the Project Agreement which, when signed by the GOA, will also approve the establishment of the agro-businesses. This project, like rural development, will involve activities that cut across functions performed by at least three ministries. There will therefore have to be some level of cooperation among ministries and some agreements with the GOA on how the coordination will be achieved.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION	(Number)	DATE 1-22-75	PAGE 1 of 1 PAGES
-------------------------------	--	----------	-----------------	-------------------

Annex AANNEX ASURVEY TEAM

The Mission has tentatively identified several agro-business opportunities which appear to be quite attractive in that they would yield substantial short and longer term benefits to Afghanistan's rural population. The agro-businesses also conform to the other USAID guidelines for project selection. Further investigation is needed, however, to establish (with the degree of certainty desired) the feasibility of these activities and their expected impact. The Mission does not have sufficient manpower and expertise to conduct the studies. The Mission is accordingly requesting a project development funded survey team to conduct studies to determine the feasibility -- administrative, technical, political, economic, and financial -- of each of the agro-businesses tentatively identified and select the two or three most promising. We would expect the team to arrive on or about April 1, 1975, and to have completed the studies, and the team to have made its recommendations, by July 31, 1975. Tentatively, a two-man team is recommended. The team's expertise would be supplemented to the extent that the team leader found necessary with the services of short-term consultants. An expert in marketing/transportation will likely be needed. It is also likely that experts will be needed in sheep production and perhaps food processing. It is expected that the team leader would be a generalist with experience in business management in the agro-business area particularly with reference to possible Afghan crops, and his assistant would be a broad-gauged agricultural economist.

In each of the agro-businesses that the team finds feasible, it will have identified the location of the processing plant, its equipment, capacity, and the mode and route of transportation to the export markets. Recommendations will have been made regarding the organizational arrangement of the producers. For a sheep project, for example, the team would have determined the seasonality of the inputs into the slaughterhouse operation and ways to minimize seasonal fluctuations in processing. It would have recommended an organizational arrangement, the scale of operation, the size and location of the processing plant, and the extent of processing, e.g., should the operation include the scouring of wool and the pickling of hides. The team would have recommended specific markets for the output and the mode and route of transportation. It would have determined the feasibility of the hand weaving of wool cloth, the likely selling price, a market, and the wages that a person could make from hand weaving of cloth.

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 1 of 4 PAGES
-------------------------------	--	----------	-----------------	-------------------

Annex B

ANNEX BBRIEF DESCRIPTIONS OF TWO AGRO-BUSINESSES

Following are brief descriptions of two agro-businesses which, on the information that we now have, appear attractive. The survey team will confirm or reject the feasibility of the two businesses. One is to produce dehydrated onion flakes; the other, mutton and other sheep by-products.

A. Dehydrated Onion Flakes

The FAO projects that the current strong world demand for dehydrated onion flakes will continue for some time. The same organization has also identified onions as a highly promising crop for production in the Helmand Valley. Estimates based on what may be very imperfect information, do make the production and dehydration of onions in Afghanistan appear unusually attractive.

It is estimated that a completely equipped dehydrating plant, including water facilities, could be installed for less than \$100,000. At a moderate level of capacity utilization, the plant could produce 2,000 MT of dehydrated onion flakes annually. This output would require 14,000 MT of raw input, or the output from 700 acres or roughly 300 hectares of planted onions. In an area where small farms predominate, as the Sanguin-Kajakai area, there would likely be at least that many, i.e., 300, farmers supplying onions to the plant. We envisage a producers' association owning the plant, scheduling the plantings and harvesting, etc. There may be other satisfactory arrangements, however.

Onions are currently produced in the Helmand Valley, although there appears to be little commercial production there. The Valley provides a long growing season. Onions can be planted in the late fall for early spring harvest. Plantings can be scheduled for harvest as late as the last of November. Onions have fair keeping qualities and the scheduling of deliveries to the processing plant would not require the same precision as needed for most fruits and vegetables. Unlike many fruits and vegetables, for onions there would be only a small problem with seasonality. At the end of the harvesting season, onions could be stored for up to three months with dehydration continued from these stocks. Two crops of onions can be produced in one season and they would also work well as a second crop to, say, wheat. Production can be very labor intensive (or mechanized). Onions do not require high technology to grow. The shipping cost for export would be small relative to value. And should the market for

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 2 of 4 PAGES
-------------------------------	--	----------	-----------------	-------------------

Annex B

dehydrated onion flakes become depressed, the dehydrator could be used to process other crops grown in the Valley.

It will take power to operate a dehydration plant and there will be substantial excess power-generating capacity at Kajakai in the near future. Below Kajakai is an area which would seem to be a suitable location for an onion dehydrator. The area also would be suitable for an experimental project in rural electrification.

One possible area is the Sanguin-Kajakai area which forms a narrow band of river bottom land extending from the Kajakai dam south along the left bank of the Helmand River for about 40 kilometers. The area is irrigated by private diversions and canals from the river. Based on data collected in the 1970 Farm Economic Survey, the area is characterized by a relatively large number of small holdings relatively intensively farmed. The area is estimated to have about 3,100 farms and a population of perhaps 40,000 persons. The average farm size in 1969/70 was 2.5 hectares of which 1.9 hectares were cropland. Eighty-five percent of farms were less than four hectares. Double cropping was reported to be practiced by 70 percent of the farmers on 30 percent of total cropland. In addition to wheat, cotton was produced, as were alfalfa and clovers. Five percent of cropland was in fruits and vegetables. Farmers of the area believed that lack of water was their most serious problem (63 percent of respondents). Salinization and high water tables were also important and 33 percent of the respondents indicated that lack of capital was a major problem. Twenty-six percent of the farmers were sharecroppers.

The area is relatively prosperous but with a fairly large element of very poor (sharecroppers).<sup>1/</sup> There are other areas in the Valley just as suitable as the Sanguin-Kajakai area. We are emphasizing the Valley because of the surplus capacity that will be shortly be available in electricity generation, its long growing season, and the availability of ample irrigation water, although with deficiencies in distribution.

#### B. Sheep

The studies that have been made and reports written on the sheep industry in Afghanistan indicate an extremely low level of efficiency. Lambing rates are low (70 - 85 percent), mortality rates are high (20 - 35 percent per year and even 30 - 40 percent for first-winter lambs), growth is slow (a good portion of young ewes do not lamb until three years of age and it takes four or five years to mature at live weights below potential); twinning is rare; ram selection is poor; most known diseases and

<sup>1/</sup> This is not known for certain, but sharecroppers are generally very poor.

22

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION	(Number)	DATE 1-22-76	PAGE 3 of 4 PAGES
-------------------------------	--	----------	-----------------	-------------------

## Annex B

parasites of sheep are widespread, but virtually no control measures are practiced by farmers; and low quality wool is made even lower by crude shearing techniques. Ungraded, cold-scoured wool is exported. The value of hides may be reduced by 50 percent because of the carelessness with which they are removed when animals are slaughtered for meat. To remove wool from hides during the pickling process, the hides are soaked in a solution that greatly impairs wool quality. Thus there is, it seems, an unusually high potential for increased efficiency in sheep production and by-product processing techniques in Afghanistan.

Yet, there is a long tradition of sheep growing and carpet weaving on which a sheep project would be based. Such a project would be dealing with commodities and processes with which the people were familiar but which need to be improved and for which there is much latitude for upgrading. There is, furthermore, an excellent and rapidly growing export market for mutton in Iran and the Persian Gulf area. And a knowledgeable Afghan in the Ministry of Mines and Industries says there is no question but that there is an excellent market for handwoven woolen textiles in Europe (after being treated by some process there). Should the GOA and USAID agree to a mutton-wool project, we would want to integrate into it the weaving of wool (both carpets and textiles) to the extent that it would provide reasonable wages to family members and supplement family income.

We envisage a project something like the following. An association of sheep producers in a single village would be formed. The association would construct a small slaughterhouse, relatively primitive but hygienic, and cooler with a large enough capacity so that one truckload of chilled carcasses could be shipped to, say, Tehran once a week. This might be around 7 - 8 MT and be composed of perhaps 350 carcasses. A slaughter rate of around 60 animals per day (and a six work-day week) would be required. Meat would be delivered under contract to an importer in Tehran. If slaughtering should occur 250 days a year at 60 head a day, this would require 15,000 animals a year to be supplied by the association members from their own flocks. It would require 250-300 flocks averaging around 130 each in size to supply the offtake of 15,000 animals. It is estimated that the slaughterhouse and equipped cooler would cost less than \$10,000 to construct. A sanitary water supply would be required. A contract would be made with a trucking company or a trucker to haul the meat. Arrangements would have to be made for the inspection of the animals.

Depending on the recommendations of the survey team, other small-scale processing -- e.g., wool scouring, pickling of hides, preparing casings for export -- might be attempted by the association. The survey team will also investigate the

PROJECT NO. 306-51-150-138	SUBMISSION <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> REVISION _____	(Number)	DATE 1-22-75	PAGE 4 of 4 PAGES
-------------------------------	--	----------	-----------------	-------------------

## Annex B

feasibility of weaving wool textiles and if feasible, assistance would be provided families in the community in this endeavor. The buyer of the cloth output may be the Government.

The project would attempt to make gradual improvements over time at all the production-processing stages of the integrated process. Thus, dipping and drenching of sheep for parasites and vaccination for disease would be introduced as would supplementary feeding in the winter and spring and the growing of this feed. More attention would be paid to the selection of breeding stock, etc. Barriers to family participation -- such as lack of know-how or of adequate inputs -- in quality rug and cloth weaving would be addressed. Carpet weaving as an existing industry would be of particular interest regarding improved methods.

For the project as a whole, seasonality of production may be one of the most difficult problems.