



*Dairy Industry
Revitalization
Project
for Afghanistan*

Implemented by:
Land O'Lakes, Inc.

USAID Cooperative Agreement # 306-A-00-04-00545-00

QUARTERLY REPORT

October – December 2005

Submitted by:
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In partnership with:
US-Afghanistan Reconstruction Council
and
Mountain Pastures Dairy

Submitted to:
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**DAIRY INDUSTRY REVITALIZATION
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PROJECT OVERVIEW
Dairy Industry Revitalization Project for Afghanistan

USAID CA# 306-A-00-04-00545-00

QUARTERLY REPORT
October 1 – December 31, 2005

Grant agreement start and end dates:	August 15, 2004 – August 15, 2006
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The Dairy Industry Revitalization Project for Afghanistan (DIRPA) is a two-year initiative funded by a \$7.2 million cooperative agreement with the U.S. Agency for International Development. Land O'Lakes, the U.S.-Afghanistan Reconstruction Council (US-ARC), the Aga Khan Foundation (AKF) and the principals behind the establishment of a new dairy plant in Afghanistan to be named Mountain Pastures Dairy (MPD) will implement a three-track development project to revitalize Afghanistan's dairy industry. This is a multi-faceted, comprehensive, dairy industry development project that is focused on the regions surrounding the new dairy plant to be built by MPD, but which will also seek to implement dairy development activities in other regions of the country.

I. EXECUTIVE SUMMARY

During the fourth quarter of 2005 the Dairy Industry Revitalization Project for Afghanistan began to build on the project foundation that has been laid over the past year. During 2005 project staff met with other implementers in Afghanistan and traveled to visit potential project activity sites. As a result of these visits and meetings, a series of potential new activities for the project were identified. During the fourth quarter project staff continued this process, and began to take the next steps to make these opportunities a reality for the project. A summary of the activities for the quarter is included in this Executive Summary. Further details are included in the following sections of this report.

Track One - Dairy Production Activities:

The Land O'Lakes partner for farm level assistance, the US-Afghan Reconstruction Council (via its local representative organization – Global-ARO), continued its program of assistance for the farmers in Parwan province. Project activities fall into three general categories: a) animal health activities; b) animal husbandry activities; and, c) development of farmer associations and milk collection centers. In the first two categories US-ARC/Global-ARO has continued its program of assistance using women extension agents who can work directly with the women in the families, the main care providers for the cows. Efforts this quarter focused on disease testing, with the cows in the program proving to be generally disease-free. The program has also started some feeding trials using barley sprouts, urea treated straw, and sugarbeets purchased from the New Baghlan Sugar Company.

Progress on the development of the collection centers was good during the quarter. The first center at Sofyan of Charikar was completed during the quarter and construction of the building for the second center, at Jebul Saraj, was nearly completed during the quarter. Project farmers have been trained in milk quality testing and the operation and maintenance of the center. The centers will be ready when the supply grows in the spring and summer.

Land O'Lakes and US-ARC/Global-ARO are also exploring other Track One activities. The main one will be an extension of US-ARC/Global-ARO program to Kunduz to complement the construction of the Mountain Pastures Dairy plant. A preliminary assessment of the dairy sector in Kunduz was planned for December, but the consultant chosen for the assignment was not able to start the study. This study will be completed during the first quarter, with implementation of an assistance program following shortly thereafter. US-ARC/Global-ARO will also be extending their program of farmer assistance in Parwan province to a new dairy farmer association in the Bagram area.

Track Two - Dairy Processing Activities:

The main activity for the project in this category is the construction and operation of the new Mountain Pastures Dairy plant in Kunduz. During the fourth quarter the principals in this new investment finalized all the financial arrangements for the project (OPIC loan Land O'Lakes grant agreement, etc.) and construction commenced during the month of December. The project got off to a good start, and the management of the company estimates that the plant will be in operation by August or September of 2006. Land O'Lakes has also begun to work on the Environmental Assessment for the plant. An internal consultant was brought into Afghanistan in December to start this process. This consultant will conduct a series of return trips to Afghanistan to complete this assignment and to monitor the

construction of the plant. Land O'Lakes will work closely with the Mountain Pastures management to ensure that the plant will be constructed in such a way as to facilitate securing HACCP certification for the plant.

During the quarter Land O'Lakes has also made progress on developing a number of other activities for Track Two, as follows:

- Land O'Lakes finalized plans to bring in a consultant who will prepare a business plan for a small-scale dairy plant in Mazar, as a collaborative activity with the FAO office there.
- A husband and wife team came to Afghanistan in December to conduct a dairy sector assessment in Nangarhar province. This is a preliminary step to developing one or more small-scale dairy plants in collaboration with ALP-E.
- FLAG International is planning to prepare a business plan for the Herat Ice Cream company. Land O'Lakes has committed to bringing in two consultants for this effort: a production specialist and a marketing specialist.
- Land O'Lakes and US-ARC/Global-ARO are continuing to explore the potential for developing some type of dairy processing activity in Parwan province. This activity would tie into the milk collection centers that are being established there.

These are the current opportunities for providing assistance in the area of dairy processing. Over the coming quarter and throughout the coming year, Land O'Lakes and US-ARC/GLOBAL-ARO will continue to explore other opportunities.

Track Three - Dairy Promotion Activities:

Only limited progress has been made on this component of the project because of the delay in the construction of the Mountain Pastures plant and the limited amount of information available on the dairy markets in Afghanistan. In keeping with the project proposal, Land O'Lakes will implement the following activities under this component:

- A national dairy market study focusing on consumer research;
- Develop partnerships with key dairy retailers and wholesalers;
- Launch a national dairy promotion program focusing on health issues;
- Promote the development of a national dairy association; and
- Support the development of modern dairy policies in Afghanistan.

Land O'Lakes has taken some initial steps to get started on these activities, and the level of activity in this component will increase in the coming quarters. The project plans to bring in two Land O'Lakes consultants in the first quarter to start on the policy element.

The project underwent some significant personnel changes during the quarter. Carson Coleman, the original Chief of Party, resigned in September and he was replaced by Mr. James Herne from the Land O'Lakes home office. Ajmal Shahabi, the Administrative Assistant, also resigned, and he was replaced by Mr. Zalmai Niazi.

During the fourth quarter project expenditures were a little over \$1.5M, with the \$900K contributed to Mountain Pastures making up the bulk of the expenditures. Expenses to date for the project are \$3.04M, leaving a balance of nearly \$4.2M for future activities. Over the course of the coming quarter Land O'Lakes will prepare revised budget projections and submit a request for a no-cost extension to the USAID Mission in Kabul.

II. PROJECT ACTIVITY HIGHLIGHTS

Under the terms of the original proposal and the cooperative agreement between Land O'Lakes and USAID, Track One activities will focus on the development of a clean and abundant supply of raw milk for the processing industry in Afghanistan. This component of the program was to be implemented to a great extent via sub-grants to two NGOs, the Aga Khan Foundation (AKDN) and the US-Afghan Reconstruction Council (US-ARC/Global-ARO). Land O'Lakes and AKDN experienced some difficulties in coming to agreement on the terms of their implementation of the project, and a mutual agreement was reached to terminate the sub-grant in August of 2005. Land O'Lakes has established good working relations with the local staff of US-ARC/Global-ARO, and their efforts in Parwan province are starting to pay off. This section of the report will summarize activities in Track One.

A. Track One: Dairy Production Activities:

Aga Khan Foundation (AKDN):

By mutual agreement, the Land O'Lakes sub-agreement with the AKDN was terminated in August, and a final report on the activities of the AKDN was submitted to Land O'Lakes in October. A copy of the text sections of the report from AKDN is attached as Annex 1 to this report. Land O'Lakes has both electronic and paper copies of the complete report (including annexes) and can provide the Mission with a complete copy on request.

US-Afghan Reconstruction Council (US-ARC/Global-ARO):

During the quarter our sub-grantee for activities in Parwan province, US-ARC/Global-ARO, continued to implement the training and technical assistance program for the farmers in the province in the towns of Charikar, Jebul Saraj and Sayed Khel. The key assistance activities undertaken by US-ARC/Global-ARO during the quarter are as follows:

- Two of the women extension agents working with the project participated in an FAO seminar on extension techniques. The seminar covered such topics as animal health, animal diseases, and principles of feeding and animal care. The two agents that participated in the seminar briefed the other US-ARC/Global-ARO extension agents on the topics covered.
- Dr. Sadaf, one of the project veterinarians, was trained by Dr. Goldsmith at the Bagram airbase on administering the new Brucellosis Card Test. All the project animals have now been tested and all showed a negative reaction. These tests were verified by Dr. Goldsmith at the Bagram airbase.
- The project has helped the farmers to put ear tags on all the cows registered with the project. Unfortunately the tags that were used have become faded and the numbers are now hard to read. New tags, which use a non-erasable permanent ink, are now being used to replace these tags on all animals.
- One of the project milk collectors has been trained in testing for milk quality. The tests will detect adulteration, fat content and other parameters. These tests and the testing equipment needed were provided by Encon Engineering, who also supplied the milk collection equipment.

- All the cows registered with the project have been tested for mastitis and more than 100 have been tested for tuberculosis. Cows infected with mastitis have been treated using a normal course of treatment. So far none of the cows have tested positive for tuberculosis. Testing will continue until all the cows have been tested.

These are the main activities that were undertaken during the quarter in the extension program. Other activities during the quarter included hoof treatments, parasite treatments and spraying farmer stables for parasites.

The other aspect of the program in Parwan is the construction of at least three, and possibly more, milk collection centers which will become the property of the project farmer groups. The first center, located in the village of Sofyan about 5 km south of Charikar, was completed during the quarter. The picture at the right shows the status of the collection center as of mid-December. Land O'Lakes brought in two consultants from Encon Engineering of India, who supervised the installation of the equipment and provided training to the farmers who will operate the center. While there is only a limited amount of milk available for collection at this time of year, this will give the project an opportunity to provide good training to the operators before summer when the available quantities of milk will be much greater.



The second collection center, located at Jebul Seraj to the north of Charikar, is now under construction. While the first center was constructed using shipping containers, this second center is being built with local construction materials and techniques. This should result in lower construction costs. The second center was built using the same general layout as the first center. As of the end of the year, the construction was about 85 percent complete. The second set of equipment will be installed in this center during the first quarter of 2006. Plans are well underway to build the third center, which will be located in a village to the east of Charikar.

The US-ARC/Global-ARO staff have also been assisting farmers with feeding trials that will show the local farmers practical and low-cost ways to improve the quality of the feed they can provide to their animals. The two main efforts are:

- The US-ARC/Global-ARO staff have also been assisting farmers with feeding trials that will show the local farmers practical and low-cost ways to improve the quality of the feed they can provide to their animals. The two main efforts are:
 - To provide a supplemental feed to the cows, US-ARC/Global-ARO has set up a demonstration greenhouse to grow barley sprouts during the winter season. These sprouts can be grown relatively quickly using plastic trays and blotting paper. Once the sprouts reach 8" to 10" in height, they can be harvested and mixed with the straw that farmers usually feed their cows. The project will monitor the impact of this additive to the feed on the productivity of the cows.
 - Land O'Lakes and US-ARC/Global-ARO learned that the New Baghlan Sugar Company had a significant quantity of sugarbeets available for sale, and the project

purchased 30 tons and transported them to Charikar. A set quantity of sugarbeets will be provided to a selected group of families, and the project will monitor the impact of this addition to the feed on animal productivity. Initial results indicate that the addition of sugarbeets can result in an increase of 0.5 to 1.0 liters of milk per day.

As the weather improves the project will be continue with these tests, and with other tests of alternative feed additives.

Land O'Lakes Technical Consultancy:

Lochrane (Lockie) Gary, a livestock specialist and extension agent from the University of Florida, arrived in Kabul on September 24 for a four-week consultancy. Most of his time was spent with the US-ARC/Global-ARO staff in Parwan (see picture at right) to improve their training tools and skills in animal husbandry, sanitation and disease detection. An improved technique for tuberculosis testing was demonstrated and is now being implemented. Participatory demonstrations of animal husbandry activities and ration management and balancing tools, were key parts of this consultancy. More details on the activities undertaken by Mr. Gary and his impressions of the status of the livestock in Parwan province are included in his consultant report, which is included as Annex 3 of this quarterly report.



Development of Other Track One Activities:

During the quarter Land O'Lakes and US-ARC/Global-ARO undertook a series of interventions designed to identify new project activities in other provinces that will be undertaken in the coming year. A summary of the planned activities for the project in 2006 is included in Annex 5. A summary of the activities planned for Track One is included here:

With the Mountain Pastures Dairy plant now under construction in Kunduz, Land O'Lakes and US-ARC/Global-ARO are making plans to develop and implement a program of assistance to farmers in that province. The objective of this activity, consistent with the original concept included in the Land O'Lakes proposal, will be to develop a good supply of quality raw milk that can be purchased by the plant and processed into final products for sale in the Afghan market. Land O'Lakes had identified a consultant to undertake a survey of the farmers in the province in December, but he fell ill before the assignment could start and will not be available until the end of February. An alternate plan has been developed, with a different consultant working with key staff members from US-ARC/Global-ARO in Parwan. This survey will begin in late January.

In Balkh province Land O'Lakes is developing a collaborative relationship with the FAO program and the Balkh Livestock Farmers Association. The main effort for Land O'Lakes will focus on developing a new small-scale dairy plant for use by the farmers association.

Land O'Lakes expects to be able to provide some limited short-term technical assistance to the FAO extension program, as well. As Land O'Lakes programs consultants for assignments in Afghanistan as part of the Track One activities, we will seek to have them spend time in Mazar meeting with the FAO people and providing some technical advice.

As with the efforts in Balkh province, Land O'Lakes is seeking to develop a collaborative relationship with the Alternative Livelihoods Project – Eastern Region (ALP-E) which is being implemented by DAI. Toward the end of the quarter Land O'Lakes sent two consultants (Bob and Mary Albrecht) to Jalalabad to undertake a survey of the dairy sector in the province. It is hoped that this survey will lead to the establishment of one or more small-scale dairy plants in the province (with financial and technical assistance from Land O'Lakes) that will tie into the farmer assistance program of ALP-E. As part of this activity Land O'Lakes will also seek to have its Track One consultants interact with the ALP-E program to provide them with advice on assistance to dairy farmers.

In December the Land O'Lakes Chief of Party and consultant Steve Fiedler visited a very modern, small dairy farm on the outskirts of Herat. The picture at the right shows a general view of the main pens on the farm; Annex 6 contains more photos of the farm. Land O'Lakes believes this farm can become a model for commercial dairy farms throughout Afghanistan. As Land O'Lakes brings more Track One consultants into Afghanistan, we will program visits by them to this farm to learn from the farmer and to determine what kind of technical assistance he may need. Lochrane Gary, who completed an assignment this quarter, will return to Afghanistan in April and he will be the first consultant to make a visit to this farm.



Toward the end of the quarter Land O'Lakes held a number of meetings with the ALP-N project being implemented by Padco. The discussions focused on the concept of establishing a dairy farm, or farms, in Keshem on the western edge of Badakhshan province which could become suppliers of milk to the Mountain Pastures Dairy (MPD) plant in Kunduz. A tentative agreement has been reached for Land O'Lakes to bring in consultants to prepare a feasibility study on this proposal, and to make a recommendation to a prospective Afghan investor and the ALP-E project. Annex 7 is the Scope of Work which has been provided to ALP-E for this study.

Over the course of the coming quarter the Land O'Lakes and US-ARC/Global-ARO staff will continue to seek out new opportunities for Track One activities, either in collaboration with other implementers or projects, or on our own. The project will seek specifically to identify opportunities in other provinces that have not as yet been visited by project staff.

B. Track Two: Dairy Processing Activities

As described in the original Land O'Lakes project proposal, Track Two activities will focus on assistance that seeks to develop the dairy processing capabilities of Afghanistan. Via this project component, Land O'Lakes will provide technical and financial assistance to new and existing firms that are involved with, or wish to become involved with, the processing of dairy products. One of the main elements of this part of the program will be the assistance the project will provide to the Mountain Pastures Dairy plant, which will be a U.S.-Kazakh joint venture, with loan financing from OPIC. Land O'Lakes will provide the project with some grant funding for the purchase of equipment and other assets, and the project will also provide some technical assistance to the plant once it is established. Beyond this effort the project will also seek out other opportunities where financial and/or technical assistance could facilitate the establishment of new dairy processing activities. Consistent with the spirit of the cooperative agreement, and the values of Land O'Lakes as an American farmer cooperative, future financial assistance will be limited to valid, legally-formed farmer associations or cooperatives.

Mountain Pastures Dairy:

During the quarter Land O'Lakes and Mountain Pastures Holding LLC (the U.S. parent company for Mountain Pastures Dairy – Afghanistan) negotiated and concluded a grant agreement for the \$1.8M in funding to be provided to the project via the cooperative agreement. The agreement was finalized on October 24, 2005, and shortly thereafter an initial \$900,000 was transferred to Mountain Pastures Holding (MPH) LLC. Land O'Lakes and Mountain Pastures have agreed on a list of equipment for the plant to be financed with the funding from the cooperative agreement, and once MPH has signed the purchase agreement for the equipment and provided the agreed to documentation on this purchase to Land O'Lakes, the balance of the \$1.8M in funding will be provided to MPH.

Since Mountain Pastures Holding LLC has now completed all the funding arrangements for the dairy plant, construction activities got underway at the plant site in Kunduz during the month of December. The picture at the right shows the general status of the construction site as of early January. The first well has been completed and a second well is being drilled. The poles for the perimeter fence have been completed, and the foundations for the main support poles of the building are being completed. The framing for the generator building and the boiler building have also been completed.



Two Kazakh employees of Altay Dairy Company (the Kazakh partner) have been appointed as President and Vice President of Mountain Pastures Dairy – Afghanistan (MPD-A). These individuals are Alexander Khan (Tel: +93 (799) 761-402; E-mail: khan_tv@rambler.ru) and Vladimir Kalach (Tel: +93 (799) 088-03). They have now relocated to Kunduz and are

managing the construction and implementation of the dairy plant on a day-to-day basis. Besides the construction of the plant, MPD-A has also rented a former United Nations office facility in Kunduz which is now used as the local office for the company and living quarters for the Kazakh employees. This is a temporary arrangement until progress on the plant has reached the point where the employees can move onsite. Annex 8 is the quarterly report from Mountain Pastures Dairy for the period.

Land O'Lakes has also started the process of completing the Environmental Assessment for the plant. During the quarter a Land O'Lakes consultant (Mr. Steve Fiedler) traveled to Afghanistan to visit with the construction company that is putting up the building. He spent two days in Kunduz reviewing the plans for the plant with the MPD-A staff onsite. Land O'Lakes submitted a draft Scope of Work for the Environmental Assessment to the USAID Mission (attached as Annex 9) and a Scoping Statement (Annex 10) which is based on the preliminary field work completed during the quarter. Land O'Lakes will provide the Mission with a revised Scope of Work during the coming quarter which will incorporate the comments and suggestions made by Barney Popkin after his review of the draft SOW. Land O'Lakes also plans a second visit to Afghanistan by Steve Fiedler during the coming quarter. He will make a stop in Almaty to meet personally with the staff of Altay Dairy Company.

Under the terms of the sub-grant agreement, Land O'Lakes will continually monitor the progress of the construction of the plant in Kunduz. Land O'Lakes staff made two visits to the Kunduz plant site during the last quarter, and visits on a monthly basis will be planned for the coming year. Also, once the project has set up the farmer assistance activities in the Kunduz area, we will have full-time staff in the province who can visit the plant site on a more regular basis and who can advise the Kabul staff should any difficulties arise.

Mazar Farmer Association Dairy Plant:

As was mentioned in the report on Track One activities, Land O'Lakes is proposing a partnership with the FAO office in Mazar-i-Sharif and the Balkh Livestock Farmers Association to establish a new small-scale dairy plant in or near Mazar. This will build on the program that the FAO has been implementing there for more than five years. The FAO has developed a good farmer association, which is now legally registered, that provides a simple milk boiling operation in Mazar with production of 1,500 to 3,000 liters of milk per day. Once this milk is boiled (see the picture at the right) it is cooled and both milk and other dairy products (yoghurt, quark, butter, etc.) are distributed to a series of window shops around Mazar for sale to the consuming public. At this point, the main limiting factor on expansion of this activity is the size of the processing operation.



In order to address this constraint, Land O'Lakes will bring in a consultant in January to assess the market for fresh dairy products and to prepare a business

plan for a new dairy plant in Mazar that could process from 5,000 to 10,000 liters of milk per day. This plant would most likely use Indian dairy processing equipment, similar to the equipment that Land O'Lakes procured for other dairy plants it assists in Asia and Africa. While the product mix of this plant has not yet been determined, it would most likely be based on the production of pasteurized milk (both in bulk and bagged) along with butter, cheese, yoghurt and perhaps ice cream. It is hoped that the products from the plant could be distributed through the private food shops in Mazar, as well as the FAO window shops. Annex 11 to this report is the Scope of Work for the consultant business plan assignment for this plant.

The business plan, if it determines that a new small-scale plant could be successful and profitable for the farmers, will become the basis for a three-party Memorandum of Understanding between Land O'Lakes, FAO/Afghanistan, and the Balkh Livestock Farmers Association. This agreement would lay out the roles and responsibilities of each party in this project effort, with Land O'Lakes focusing on the processing activity, the FAO continuing its farmer assistance program, and the farmers association providing the milk for the plant and becoming the eventual owner of the plant and equipment.

Jalalabad Dairy Processing:

As with the effort in Mazar, Land O'Lakes is seeking to develop a collaborative relationship with another development project in the region to advance the development of dairy production and processing. In the case of Jalalabad, Land O'Lakes expects to be working with the Alternative Livelihood Project – Eastern Region (ALP-E), which is being implemented by DAI. During the last quarter Land O'Lakes staff has had a number of contacts with the ALP-E project, and the Deputy Chief of Party made a visit to Jalalabad during the quarter to visit some of the dairy areas and to further discuss the prospects for collaboration between the two projects.

Based on these discussions there appear to be a number of opportunities for the development of dairy production and processing in the region. As the quarter came to a close the first concrete steps at collaboration were under way. Land O'Lakes brought in a husband and wife team, Bob and Mary Albrecht from Wisconsin, to work with the ALP-E team in Nangarhar province and to conduct a dairy sector survey. The consultants completed their assignment in early January and their report is now being reviewed by the ALP-E staff. Their conclusions were that there is scope for placing three or more small-scale dairies in the Jalalabad area, based on the current milk supply. Over the course of the coming quarter Land O'Lakes will make a follow-up visit to Jalalabad to hold further discussions with ALP-E on the prospects for collaboration. As with Mazar, the basic concept would be that Land O'Lakes would bring in some equipment for a small-scale plant and provide the necessary technical assistance, while the ALP-E project would provide assistance at the farmer level.

Other Track Two Activities:

Over the course of the past quarter Land O'Lakes staff in Afghanistan has identified a number of other opportunities for becoming involved in dairy processing. The most active of opportunities at this time are:

- In December two Land O'Lakes staff members traveled to Herat at the request of FLAG International (a RAMP sub-contractor) to visit the Herat Ice Cream company. This small firm, owned and operated by an Afghan entrepreneur, produces and markets ice cream and ice cream products in the Herat area during the warmer months of the year. FLAG plans to assist the entrepreneur to prepare a business plan, and FLAG seeks Land O'Lakes for assistance in the areas of product processing and development, and marketing and promotion. At this time Land O'Lakes has committed to bringing in two consultants to assist in this effort – one in the production area and a second in the marketing area. The picture below shows some of the processing equipment in this relatively modern ice cream plant. The two consultants will become part of a team that will prepare the business plan for this entrepreneur. It is expected that the work will occur during the first quarter. The Scopes of Work developed for the consultants are in Annexes 13 and 14.

- FLAG International has also informed Land O'Lakes that they are in contact with an entrepreneur in Parwan province that would like to set up a dairy processing plant. This plant would fit in well with the work completed so far on developing milk collection centers. Contact has also been made with the new Chief of Party for the CNFA project, and there is interest on his part in financing dairy plants. Over the course of the coming



months the project staff will seek to move this idea ahead, as Land O'Lakes is committed to developing some form of processing facility in the Charikar area to take advantage of the increased milk supply and the collection centers.

These are the two most encouraging prospects for the development of other new dairy processing activities in the next few months. Land O'Lakes, and US-ARC/Global-ARO will continue to seek out other potential collaborative arrangements that could lead to the creation of dairy plants in these provinces, or in others that have not yet been visited.

C. Track Three: Dairy Promotion Activities

In the original proposal, Land O'Lakes proposed a series of activities which would serve to further develop the local market for milk and dairy products, and to enhance the image of locally-produced dairy products. The specific activities proposed were:

- A comprehensive national consumer research study on the Afghan dairy market, to be completed in collaboration with Mountain Pastures Dairy Company.
- The identification of the key retail channels used for dairy products, and the development of partnerships with retailers and wholesalers.

- Land O'Lakes and Mountain Pastures will develop a broad general dairy product promotional campaign, targeting specific dairy consumers.
- Based on the work of Land O'Lakes and other implementers, the project will seek to develop a national dairy association to represent farmers and processors.
- Land O'Lakes, using its experience in the USA and elsewhere, will provide support for the development of modern dairy and livestock policies in Afghanistan.

During the past year Land O'Lakes has made limited progress on some of these activities, but given the delays in construction of the MPD plant and the limited availability of marketing and promotion skills in Afghanistan, there is still much to be done. Plans are now being made to address all these tasks more seriously in the coming year. A review of the status of these efforts to-date follows.

Nationwide Dairy Market Survey:

During the past year the Land O'Lakes staff in Kabul have attempted to identify local consulting firms or services that could be used to address, at least partially, the tasks to be completed as part of this survey. Project staff contacted the Altai Consulting group in Kabul, and discussions were held on how they could assist in this effort. Based on comments and impressions on Altai's work from other implementers, a decision was made to abandon work with Altai. Land O'Lakes has also been working with the local NGO, CoAR and they have conducted some preliminary farmer and market surveys for the project in Nangarhar and Laghman provinces. Over the coming quarter Land O'Lakes will be analyzing this data to determine its value, and to make a decision on continuing the process.

Land O'Lakes has also been in contact with a consulting firm called Morningstar Enterprises, who has an office in Kabul. They have provided the project with a proposal for a study of the market for dairy products in the Kabul market. This offer is currently being reviewed and considered by Land O'Lakes staff in country and in Minnesota. The project has enlisted the services of Elena Lindemann a dairy marketing specialist based in our home office, to review the proposal and to offer comments and suggestions. Over the next quarter Elena will advise on how to proceed with this element of the project. It is expected that she will make a visit to the project to support this effort.

Developing Strategic Partnerships:

The second element of this Track is the development of collaborative relationships with key retailers and wholesalers of milk and dairy products in Afghanistan. Progress on this element has been limited, as the project needs to understand the local market for dairy products much better before this step can take place. The delay in establishing the processing plant has also minimized the need to move ahead with this element as well. During the last quarter the project had contact with one of the main importers of UHT milk in Afghanistan, and the project will build on these contacts in the coming quarter to gain a better understanding of the overall milk market, and to the individuals and organizations that need to be part of this process. Information being gathered by efforts underway in other Tracks of the project (i.e. the Nangarhar Dairy Survey, and the Mazar Business Plan) will also contribute to the development of the contacts and information needed for this element.

Dairy Marketing and Promotion Campaign:

As with the other elements of this Track, the development of the dairy marketing and promotion campaign is dependent on having a better understanding of the local market, and having locally produced products available for sale. Land O'Lakes has conducted initial discussions regarding this element of the project with our marketing advisor in the home office and with a marketing firm in the U.S., but no decision has been made regarding the direction of this component. Over the course of the coming year, as the market information for dairy products is further developed, Land O'Lakes will work with the appropriate individuals and institutions to effectively implement this element of the project.

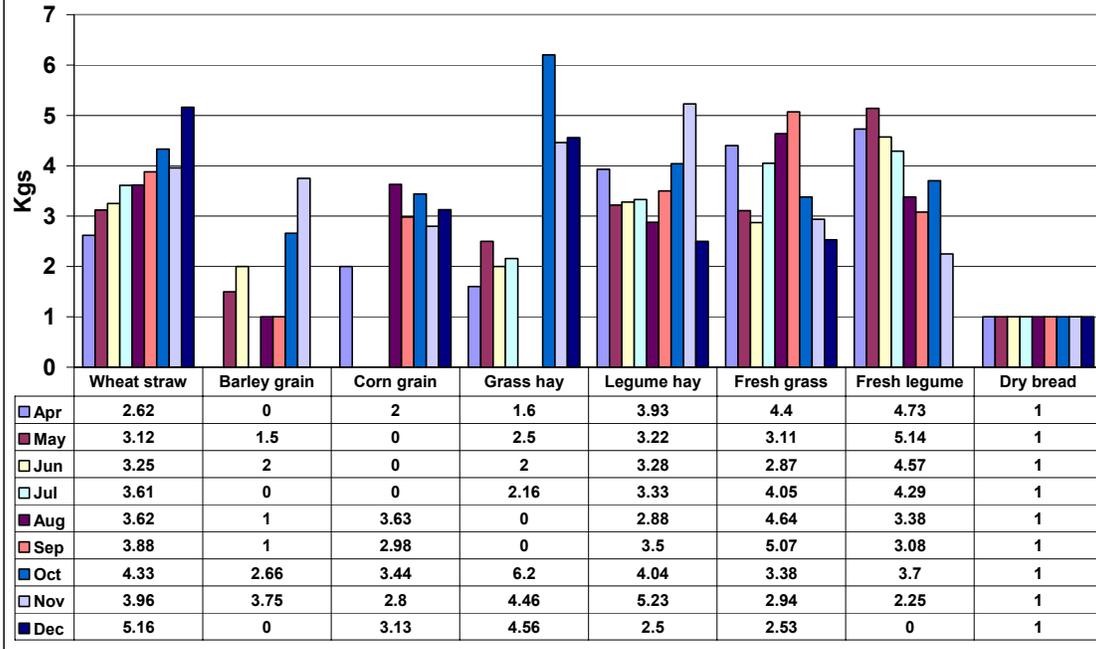
Development of a National Dairy Association:

The development of a national dairy association is a lofty and worthwhile goal, but it must be built on a good foundation. With only a limited number of farmer associations or cooperatives in the country at this time, it is too early to begin serious work on the development of a national dairy association. Land O'Lakes will continue to maintain this as a long-term goal of the project, but serious efforts in this element will not begin until late 2006 or early 2007 at the earliest.

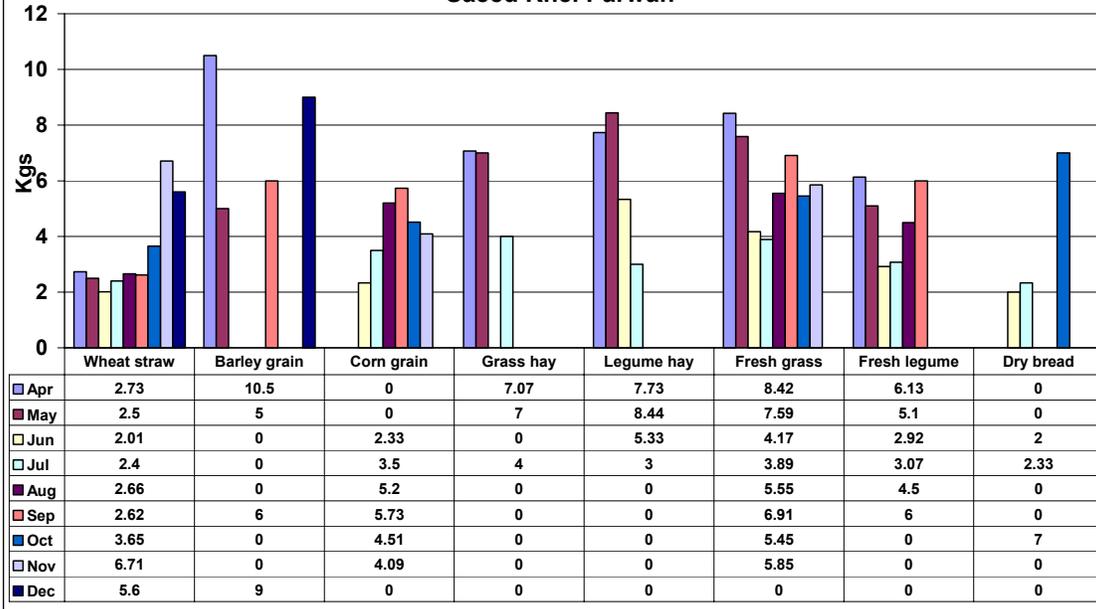
Livestock and Dairy Policy Development:

Land O'Lakes has considerable experience in the U.S. and in other countries around the world in the development of sound private sector oriented dairy and livestock policies. As part of the DIRPA project, Land O'Lakes will bring this experience to Afghanistan, and a first step in this process will occur during the first quarter. Land O'Lakes will bring to Kabul two experienced consultants in dairy and livestock policies to review the current state of Afghan policies and to provide some perspectives to the Ministry of Agriculture on the future development of policies which could better foster the development of a private dairy industry in the country. A Scope of Work for this assignment is included as Annex 15 to this report.

**Avg. kgs of Feeds Consumed by single cow/day Apr-Dec 2005
Jabel Saraj Parwan**



**Avg. kgs of Feeds Consumed by single cow/day Apr-Dec 2005
Saeed Khel Parwan**



IV. ADMINISTRATIVE ACTIVITIES

During the quarter there were a number of administrative changes for the project, mainly related to the personnel and the move to a new office facility. A summary of these changes is included here.

A. Personnel Changes:

The main change during the quarter was the resignation of Carson Coleman, the original Chief of Party for the project and his subsequent replacement by James Herne, who was the Regional Director for Europe/Eurasia/Middle East prior to arrival in Afghanistan. Mr. Herne was the author of the proposal for the Land O'Lakes project and has been very involved with the project since the start-up. A copy of the letter nominating Mr. Herne as Chief of Party, along with his resume, are attached to this report as Annex 18. Mr. Coleman left Afghanistan in mid-October and Mr. Herne arrived to take up his new position on November 2.

The Administrative/Finance Officer, Mr. Ajmal Shahabi, also resigned during the quarter, completing his employment with Land O'Lakes at the end of December. A candidate search was undertaken, with the Land O'Lakes regional accountant conducting a review of resumes and phone interviews from the U.S. to develop a short list of candidates. This list was provided to the Chief of Party and the Deputy Chief of Party, who interviewed the candidates in person in Kabul. As a result of this process, Mr. Zalmi Niazi was chosen as the best candidate for the post, and he started work with the project in mid-December.

B. Project Office Move:

During the past year a new building was under construction in the lot directly across the street from the original Land O'Lakes office. The building was finally completed in November, and during the past quarter the Chief of Party and the Deputy Chief of Party visited the building a number of times and came to the conclusion that it would be a more suitable office/apartment facility than the existing office. The building has significantly more room, the Chief of Party could have an office separate from the conference room, there would be better office facilities for our sub-grantee (US-ARC/Global-ARO), and after negotiating a lease agreement with the owner, the monthly rental cost would be less than the current office. A decision was made to move to this new building. Moving began in November, and in December the move was completed.

Finalizing the move was made difficult by the need to purchase and install a new generator (the current generator would not have the capacity to power the new building), and to move and re-install the internet system for the office. These tasks were finally completed around the middle of December, and at that time all the furniture and other office equipment was moved over to the new facility. The Chief of Party, who was staying in one of the guest houses in Kabul until that time, also moved into the new office, and both expatriate staff now live in the apartment on the second floor of the building.

C. Support from the Home Office:

During the first year of the project relatively few staff members from the home office were able to make visits to the project in Afghanistan. The Regional Director made visits to Afghanistan on a quarterly basis, and the Vice President for International Development made

his first visit during the month of September. In November Collette Younan, Regional Project Manager for Europe/Eurasia/Middle East based in Minnesota, traveled to Afghanistan and visited with project clients, including some of the women farmers who are receiving assistance from the women field agents. Her visit was beneficial to the project in that her meetings with the women farmers helped us get a sense of the attitudes of these farmers and their perception of how the assistance is positively affecting their livelihoods. It also exposed her to the realities of life in Afghanistan and what consultants will need to know when traveling there. Ms. Younan also assisted with the development of administrative procedures and improvements made to help make the office more efficient and secure. As project activities continue to ramp up over the course of the next year, increased support from the home office staff will be necessary.

During next quarter the project expects to host the Controller from the International Development Division's Finance Department, and our M&E specialist, both based at the home office. Our controller, Mr. Michael Parr, will provide Zalmai Niazi with training in the financial and administrative procedures that Land O'Lakes uses on USAID-funded projects. Mr. Parr will also train Mr. Niazi on USAID policies and procedures while he is here, and help to set up the new CostPoint accounting system that Land O'Lakes is implementing for the International Development Division. Our M&E specialist, Mr. Frank Valdivia, will work with our M&E officer here to review and improve our project M&E system and to assist with the implementation of the dairy farmer survey.

D. Consultant Assignments:

As was mentioned above, the project made limited use of U.S. consultants during the first year, but this year we expect to make a much greater use of experienced Land O'Lakes consultants. During the quarter Land O'Lakes brought in three consultants to assist with the project. These consultants were:

- Steve Fiedler: Mr. Fiedler is a long-term employee of Land O'Lakes and his specialty is in dairy plant management. He made a visit to Afghanistan during the quarter to get started on the Environmental Assessment for the Mountain Pastures Dairy plant, and to assist in planning for the small-scale dairy plants that the project hopes to set up during the coming year.
- Bob and Mary Albrecht: This husband and wife team came to Afghanistan to undertake an assessment of the dairy sector in Nangarhar province in collaboration with the ALP-E project. This study is a first step in a planned collaboration between Land O'Lakes and the ALP-E project which may lead to the development of one or more small dairy plants in that province.

During the next quarter and throughout the 2006, Land O'Lakes plans to make more extensive use of highly qualified consultants on the project. Annex 19 is a listing of the consultancies that are planned for the next few months. This is an indication of the level and types of consultant assignments that will be used over the coming year.