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ASIAN DEVELOPMENT BANK
REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
BOARD OF DIRECTORS
ON THE
PROPOSED LOAN AND TECHNICAL ASSISTANCE
TO AFGHANISTAN
FOR THE
GAWARGAN - CHAR DARRAH PROJECT

24 November 1970

Report and Recommendation of the President to the
Board of Directors on the Proposed Loan and
Technical Assistance to the Kingdom of Afghanistan
for the Gawargan and Char Darrah Agricultural Development Project

1. I submit to the Board of Directors for their consideration and decision the following report and recommendation on a proposed loan and technical assistance in an amount in various currencies equivalent to US\$5.52 million applied for by the Government of Afghanistan for the implementation of the Gawargan and Char Darrah Agricultural Development Project.

I. INTRODUCTION

2. In Afghanistan the agricultural sector contributes about 50 per cent of GDP and provides livelihood for about 80 per cent of the population. Over the past two decades, agricultural production has increased less rapidly than population with the result that the country, which was basically self-sufficient in food production until 1957/58, has since then become a net importer. The poor performance of agriculture was not offset by achievements in other productive sectors and per capita incomes practically stagnated. Investments under earlier development plans to a large extent concentrated on transport and communication, followed by industries and mining, and only comparatively small amounts were spent on improving agricultural conditions and services. Furthermore, a large proportion of the limited funds allocated to agriculture went into large-scale irrigation projects with long gestation periods.

3. The first decisive step to remedy this situation was taken under the Accelerated Wheat Program which was formulated in 1966 in collaboration with USAID and which has already produced encouraging results. Financial allocations to agriculture under the Third Five-Year Development Plan 1967/68-1971/72 were more than doubled and emphasis was placed on raising production from already irrigated and cultivated land by improving and expanding small and medium-scale irrigation systems, by intensifying research and extension efforts and by increasing the use of modern inputs. However, subsequent experience showed that, whilst there was an abundant need for improving irrigation facilities, only few projects were adequately investigated and documented and available technical staff was inadequate to remedy this shortcoming.

4. Against this background, the Government of Afghanistan, with a view to intensifying its efforts in the improvement and rehabilitation of existing irrigation projects, requested the Bank in early 1969 to provide technical assistance for project preparation for four or five relatively smaller sized irrigation projects. This request was approved by the Bank in July 1969 and in August 1970, the consultants appointed by the Bank submitted their feasibility report on the Gawargan and Char Darrah Projects with a combined net irrigable area of over 25,000 hectares. The report indicated that the two projects are technically and economically sound. Further to the findings of the Report, the Government of Afghanistan requested the Bank to provide financial assistance for their execution. In response to this request, an Appraisal Mission from the Bank examined the projects from 26 August to 17 September 1970 and confirmed their suitability for Bank financing.

5. Formal negotiations for the proposed loan and technical assistance were held in Kabul from 5 to 10 November 1970. The Afghan authorities were represented by Dr. Rafik, Deputy Minister of Agriculture and Irrigation, Chief Negotiator; Mr. Habibullah Habib, President of Economic and Technical Cooperation Department, Ministry of Planning; Mr. Sumay-u-din Zhouand, President of Legislative Department, Ministry of Justice; Mr. Mohammadullah Kazimi, Ministry of Finance; Mr. Abdul Majid, President of Planning Department, Ministry of Agriculture and Irrigation; and Mr. Ghulam Dastagir, Advisor, Ministry of Justice.

II. DESCRIPTION OF THE PROPOSED LOAN AND TECHNICAL ASSISTANCE

6. The main features of the proposed financial assistance from the Bank are as follows:

Borrower	:	Kingdom of Afghanistan
Executing Agency	:	Ministry of Agriculture and Irrigation
Amount of Total Financial Assistance Requested	:	The equivalent in various currencies of US\$5,520,000 composed as follows:

(a) Loan from Special Fund Resources	:	The equivalent in various currencies of US\$5,150,000
(b) Technical Assistance Grant	:	The equivalent in various currencies of US\$370,000
Purpose	:	To finance primarily the foreign exchange component of the development costs of the Gawargan and Char Darrah Agricultural Development Project
Period of Utilization	:	December 31, 1976
Terms and Amortization:	:	30 years including 7-year grace period
Interest	:	1-1/2% (including service fee) payable semi-annually.

III. THE PROJECT

7. A report (No. AFG:Ap-1) entitled "Appraisal of Gawargan and Char Darrah Agricultural Development Project in Afghanistan" of 23 November 1970 is circulated herewith.

8. The proposed Project, in the first instance, foresees a thorough improvement of the water supply conditions in the two project areas. Two adequate and permanent intake structures will be constructed in the Kunduz river, one to supply water to the entire Gawargan area and the other to the whole of the Char Darrah area. Present main canals will be rehabilitated and enlarged and will be provided with proper turn-out and control structures. In addition, drainage and road conditions will be improved and the combined net irrigable area of the two project areas will be approximately 25,300 hectares.

9. Apart from irrigation, drainage and road construction, the Project consists of the improvement of agricultural services for extension, input supply credit and marketing, and in this context

provides for the construction of buildings and storage facilities, the procurement of the necessary equipment and vehicles, and the provision of foreign experts to assist in the organization and initial operation of these services.

10. The Gawargan-Char-Darrah Project forms part of the irrigation rehabilitation and expansion program of the Government which has been accorded high priority in the Third Development Plan. It is expected, that the two Project areas will make a significant contribution towards reducing the country's food deficit and, in addition, will help to ease its tight foreign exchange situation. After a running-in period, the project areas should produce about 28,000 tons of wheat, 48,000 tons of sugar beet and 19,000 tons of cotton as compared with 9,000 tons, 18,000 tons and 4,400 tons respectively at present. The production of barley, maize and vegetable crops will also rise substantially.

11. The irrigation, drainage and road systems proposed for the Gawargan Project of 9,240 hectares net in the province of Baghlan and for the Char Darrah Project of 16,060 hectares net in the province of Kunduz are technically sound and will lead to a considerable improvement of water supply, irrigation and communication conditions in the two areas. The Government appreciates that the full benefits from substantial investments in irrigation and related construction can only be realized if concentrated efforts are made in the fields of agricultural research and extension, input supply and credit and marketing. Detailed programs adequate for ensuring successful development of the two Project areas have been worked out.

12. The borrower of the proposed Bank financing will be the Kingdom of Afghanistan and the Executing Agency will be the Ministry of Agriculture and Irrigation, which will undertake the construction work on force account basis. Within the Ministry, direct responsibility for the construction of the Projects will rest with the Gawargan-Char Darrah Project Department, which will be newly established and whose offices will be at the Project site. The Project Management will have wide powers of decision and action with regard to technical, organizational, managerial and administrative aspects, especially with regard to the employment of labor, the procurement and use of machinery and vehicles, the ordering, supply and use of materials, spare parts and fuel, accounting,

paying for materials and staff, etc. Allocated local funds for the Project will be transferred semi-annually in advance of the period concerned to the provincial Treasury Disbursement Office for withdrawal by the Project Department.

13. In view of the shortage of qualified local staff, immediate responsibility for the technical aspects of design and construction execution will be delegated to foreign experts included in the proposed Bank financing. The experts to be provided are: a Chief Project Engineer, a photogrammetrist, a design engineer, a construction and cost engineer, a surveyor, a plant engineer and two work supervisors. They will each train one or several counterparts in order to facilitate future construction execution with less dependence on foreign expertise.

14. During construction and for at least four years after construction completion (i. e., till the pattern of activities for agricultural production in the area has been settled and proved in practice), the Project Department under the Project Manager will also be responsible for irrigation operation and maintenance, extension services and marketing and credit in the Gawargan-Char Darrah Project areas. Assistance in the organization and initial operation of these services will be provided by three foreign experts in these fields, who will be financed under the Project and will work in the Gawargan area for periods ranging between ten and eighteen months. A considerable number of local counterpart staff will work in the two Project areas to ensure successful project implementation.

15. Procurement under the proposed loan will be undertaken by the new Project Department with the assistance of the consultants to be engaged for the Project, and in accordance with the procedures determined by the Bank on the basis of available Special Funds resources. Subject to the procedures so determined by the Bank, individual contracts involving foreign currency expenditures exceeding the equivalent of US\$30,000 under the proposed loan will be awarded on the basis of competitive bidding among all eligible member countries of the Bank, and tender documents and contracts will be approved by the Bank prior to the issuance of such documents and awards of such contracts. As to individual contracts involving foreign currency expenditures equivalent to US\$30,000, or less, goods may be procured on the basis of adequate competition among a reasonable number of eligible suppliers and the Bank will review, subsequent to the award of the contract, the bids or quotations and other documents relating to the award.

16. The total investment costs for the Gawargan and Char Darrah Agricultural Development Project amount to \$8,510,000, of which \$5,520,000 or 65 per cent are foreign exchange costs. Not included in the foreign exchange costs are fuels, which are entirely imported but would be difficult to procure under a Bank financed loan, and the import content of locally produced cement. Primarily in view of these factors, an amount of \$500,000 or about 16 per cent of the civil works costs has been included in the proposed Bank financing. All other foreign exchange costs relate to equipment and materials to be imported and to foreign expert services.

17. The proposed technical assistance grant of \$370,000 relates to the services of a photogrammetrist, a design engineer and three agricultural experts, who will each train counterparts in the course of their work. The photogrammetrist will at the same time prepare maps for two additional projects in preparation for future development activities and the design engineer will also undertake project preparation for a second construction phase in the Char Darrah area, which does not form part of the present project. The irrigation agronomist, the extension specialist and the marketing and credit expert will organize the respective agricultural services in an intensive and integrated way and in this respect will undertake a pioneering effort which should have a considerable demonstration impact far beyond the actual Project boundaries.

18. The Gawargan-Char Darrah Agricultural Development Project will provide considerable economic and social benefits to the country, and especially to the population of the two Project areas. Calculated at present international prices the increased production of wheat and sugar beet constitutes an annual foreign exchange saving through import substitution of US\$2.3 million and export earnings from cotton lint and seed can be placed at US\$3.7 million. The total population which will directly or indirectly benefit from the Project is estimated at 75,000. The incomes of over 5,000 farmer families will be more than doubled and incomes of agricultural and non-agricultural laborers should also rise substantially as a result of the Project. Investment returns of the cotton and sugar companies will be greatly enhanced as a result of better utilization of processing capacities and benefits will also accrue to dealers in agricultural products and requisites. The internal rate of return, calculated on the basis of international prices for wheat, cotton and sugar, is 16.2 per cent for the Gawargan Project and 15.1 per cent for the Char Darrah Project.

19. While the Project will, no doubt, generate considerable returns, the realization of these benefits will take time to achieve and for this reason concessional financing is appropriate. Financing on soft terms is, in addition, justified by the stage of economic development of Afghanistan (which is one of the less developed countries among the member countries of the Bank) and by its financial situation and pressing debt service problems. The dearth of technical staff in the country and the expected training and demonstration impact of the Project justify inclusion of a grant element in the Bank's financing.

IV. LEGAL INSTRUMENTS AND AUTHORITY

20. The draft Loan Agreement between the Kingdom of Afghanistan and the Bank and the draft Technical Assistance Agreement between the Royal Government of Afghanistan and the Bank, together with related Side Letters, are circulated herewith. Special Operations Loan Regulations of the Bank dated 6 May 1969 are incorporated in the Loan Agreement subject to the modification set forth in Section 1.01 of the Loan Agreement.

21. The Constitution of the Kingdom of Afghanistan requires that loans to the Kingdom shall be authorized by the Parliament. In case the Board approves of the proposals, it has been assured that the Government authorities concerned will take, soon after the proposal is approved and the relevant documents signed, all steps necessary to secure the expeditious ratification of the Agreement by the Parliament. The loan will take effect after the ratification of the Parliament has been obtained and a satisfactory legal opinion has been furnished to the Bank.

V. THE ECONOMY

22. A report entitled "Economic Report on Afghanistan" prepared in August 1970 by the Bank has been circulated to the Board vide Document AFG:Ec-1 dated 14 October 1970.

23. Expressed on a per capita basis, the economy of Afghanistan remained almost stagnant during the last five years, during which an overall economic growth in real terms of about

3 per cent annually was virtually offset by an estimated population growth of 2.5 per cent. The stagnation of per capita incomes at about US\$80 should not, however, be taken as a reflection of a total or almost total absence of development activities. In certain respects the country has made distinct progress towards modernization: a network of modern roads has been developed, a substantial electric power system has been built, school enrolment has about doubled and medical facilities and services have been significantly improved.

24. The structural changes and improvements have been accomplished with relatively massive foreign assistance which has financed about three-fourths of the country's development expenditures over the past decade. The predominant application of foreign aid has been to infrastructure projects, which have not commensurately increased current production. Recently, however, development strategy has been shifted in favor of the productive sectors and in this context increased emphasis is being placed on agriculture, by far the largest sector of the economy.

25. About 80 per cent of an estimated total population of 16.5 million derive their livelihood from agriculture. Agricultural and livestock products (mainly fruits, karakul pelts, wool and cotton) account for over 80 per cent of annual export earnings totalling about US\$70 million in the five years up to 1968/69. On the other hand, imports of sugar, tea and other food items make up about 20 per cent of total commercial imports; and wheat imports, ranging from 100,000 to 150,000 tons a year till 1967, constitute a major item of aid-financed imports.

26. Industry has made headway in recent years, particularly in the fields of cotton textiles, cement and coal but the industrial sector continues as yet to be of comparatively small importance in the national economy. Factory industry provides employment for less than 1 per cent of the total labour force and is estimated to account for about 3 per cent of GDP. The importance of the handicraft industries is greater. Such industries provide considerable full- and part-time employment and contribute almost 7 per cent to GDP.

27. As regards foreign trade, the export situation of the country has improved significantly due to the commencement of natural gas exports to the USSR in 1967/68. With gas exports

at a level of US\$12.0 million, the value of total exports in 1969/70 reached a record level of US\$81.7 million. It is expected that exports will be of the order of US\$90 million in 1970/71 and should continue to increase in the years to come. However, commercial imports, which in the past were generally kept at a somewhat lower level than exports, are also expected to increase in line with the development needs of the country. Moreover, foreign debt service payments will rise steeply in future years.

28. It is estimated that total external debt, including undisbursed loans, as of December 1969 amounted to US\$649 million. Foreign debt service payments in 1968/69 were of the order of US\$14 million or 19 per cent of the value of exports of goods and services. These figures increased to US\$20.1 million and 25 per cent in 1969/70 and are likely to be higher than these levels during the Fourth Plan 1972/73 to 1976/77. Afghanistan will continue to be heavily dependent on foreign aid for its future development program and it is necessary that such aid be obtained at the most favorable terms.

VI. COMPLIANCE WITH ARTICLES OF AGREEMENT

29. I am satisfied that the proposed assistance complies with the Articles of Agreement of the Bank.

VII. RECOMMENDATIONS

30. I recommend that the Board approve the proposed financial assistance in the terms of the following resolution:

"Approval of financial assistance to the Kingdom of Afghanistan for the Gawargan Char Darrah Agricultural Development Project in an aggregate amount equivalent to US\$5,520,000.

"RESOLVED:

"That the Bank shall grant

(i) a loan from its Special Funds resources to the Kingdom of Afghanistan in an amount in various currencies equivalent to Five Million One Hundred

Fifty Thousand United States Dollars (US\$5,150,000) to mature on and prior to July 1, 2000, and to bear interest (including service fee at the rate of $\frac{3}{4}$ of 1 per cent) at the rate of $1\frac{1}{2}$ per cent per annum and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions set forth in the form of Loan Agreement (Special Operations) between the Kingdom of Afghanistan and the Bank which has been presented to this meeting; and

(ii) a technical assistance grant to the Kingdom of Afghanistan in an amount not exceeding the equivalent of Three Hundred Seventy Thousand United States Dollars (US\$370,000) to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions set forth in the form of Technical Assistance Agreement between the Royal Government of Afghanistan and the Bank which has been presented to this meeting."

Takeshi Watanabe
President

24 November 1970