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ASIAN DEVELOPMENT BANK

REPORT AND RECOMMENDATION OF

THE PRESIDENT

TO THE

BOARD OF DIRECTORS

ON A

PROPOSED LOAN

TO THE

KINGDOM OF AFGHANISTAN

FOR THE

HELMAND VALLEY DEVELOPMENT ROAD PROJECT

28 March 1973

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE  
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VALLEY DEVELOPMENT ROAD PROJECT

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1. I submit to the Board of Directors for their consideration and decision the following Report and Recommendation on a proposed loan from the Bank's Special Funds resources in an amount in various currencies equivalent to US\$14.90 million applied for by the Royal Government of Afghanistan for the implementation of the Helmand Valley Development Road Project.

I. INTRODUCTION

2. In May 1972 the Bank approved a technical assistance of \$48,500 to finance the foreign exchange cost of a feasibility study for a development road between Lashkargah and Deshu in the Upper Helmand Valley in southern Afghanistan. The feasibility study was undertaken by a team of five individual consultants retained by the Bank. The consultants' report was submitted to the Bank in December 1972. After reviewing the report the Government decided to proceed with the construction of the road on the basis of consultants' recommendations and has requested the Bank for a loan to finance the foreign exchange cost of the Project. The Government has accorded high priority to the Project and has included it in the Fourth Five-Year Plan (1972/73-1976/77).

3. The Project was appraised by a Bank mission that visited Kabul during 26 January-15 February 1973. The Mission considers the Project to be suitable for a loan from the Special Funds resources of the Bank.

4. Formal negotiations for the proposed loan were held in Manila on 12-20 March 1973 with the duly authorized representatives of the Royal Government of Afghanistan. If approved, the proposed loan will be the second Bank loan to Afghanistan.

## II. DESCRIPTION OF THE PROPOSED LOAN

5. The main features of the proposed loan are as follows:

Borrower	:	Kingdom of Afghanistan
Executing Agency	:	Ministry of Public Works
Amount	:	The equivalent in various currencies of US\$14.90 million from the Special Funds Resources of the Bank
Purpose	:	To finance the foreign exchange cost for development of a road 266 km. long, with associated facilities, between Yakchal and a point 24 km. beyond Deshu, including provision of consultants' services for detailed engineering, supervision of construction of the Project and preparation of plans for the maintenance of the road
Period of Utilization	:	Up to 31 March 1979.
Terms and Amortization	:	30 years including a grace period of 8 years. Principal, interest and other charges to be payable semi-annually.
Interest Rate (including Service Fee)	:	1-1/2 per cent per annum.

## III. THE PROJECT

6. An Appraisal Report entitled "Appraisal of the Helmand Valley Development Road Project in Afghanistan" (Report No. AFG:Ap-2) is circulated herewith.

7. The Project recommended for a loan from the Bank comprises: (i) upgrading of the existing gravel road between Yakchal and Lashkargah (51 km.) to asphalt surface dressing standard; (ii) construction of a two-lane road (215 km.) from Lashkargah to a point 24 km. beyond Deshu, with asphalt surface dressed paving for the first 52 km. and gravel surface for the remaining 163 km.; (iii) construction of a two-lane bridge near Deshu (km. 242) and a one-lane bridge near Kertaka (km. 146), both with spans of about 200 meters across the Helmand River; (iv) construction of two feeder roads (totalling 14 km.) in the Darweshan land development zone and four feeder roads (totalling about 20 km.) in the Shamalan zone; and (v) consultants' services for detailed engineering work, supervision of construction and preparation of plans for the maintenance of the road.

8. Traversing the entire length of the Upper Helmand Valley, which is considered to be potentially one of the most productive agricultural regions in Afghanistan, the proposed road will connect the valley to the existing national highway system. The present transport network in the Project area, consisting mostly of earth roads along canal bunds and of desert tracks, is inadequate and uneconomical and constitutes a serious impediment to the development of the area. Agricultural production has responded satisfactorily to earlier development programs implemented by the Government in the area. With a view to exploiting the considerable scope that still exists for further increases in production, the Government is making the necessary efforts, through the Helmand-Arghandab Valley Authority towards accelerating development of agricultural production in this region. The Project road complements such efforts and is vital for the development of the region.

9. The Executing Agency for the Project will be the Ministry of Public Works. The Road Construction and Maintenance Department of the Ministry will have direct responsibility for the execution of the Project. Within this department, a Project Management Office will be established in the Project area at Lashkargah; it will be headed by a Project Manager, acceptable to the Bank, with responsibility for the day-to-day administration related to the implementation of the Project.

10. The Government will retain a firm of qualified and experienced consultants for detailed engineering, preparation of tender specifications and tender documents, assistance in tender evaluation, supervision of construction and preparation of plans for the maintenance of the road. The selection of consultants will be in accordance with the Bank's Guidelines on Uses of Consultants.

11. Contracts for civil works will be awarded on the basis of competitive bidding from prequalified contractors in eligible source countries (as determined by the Bank from time to time on the basis of available contributed Special Funds), and the Bank's Guidelines for Procurement will apply to procurement under such contracts. In order to foster effective competition and to encourage participation by local contractor(s), the works will be divided into appropriate contract sections in consultation with the Bank; prospective contractors will be allowed to prequalify and bid for any one or more of such sections. The Project is expected to be completed in about five years.

12. The total cost of the Project is estimated at US\$20.85 million equivalent, including a foreign exchange component of US\$14.90 million. The local currency expenditure of US\$5.95 million equivalent will be financed by the Government from its own resources, and the foreign exchange needed for the Project will be financed from the proceeds of the proposed loan from the Bank.

13. The Project is technically sound and economically viable. The internal rate of return on the Project is estimated at 16.8 per cent.

14. A loan of US\$14.90 million is recommended for the Project from the Bank's Special Funds resources. Considering that Afghanistan is one of the least developed countries in the region and has a difficult balance of payments position and an increasing debt-service burden, an amortization period of 30 years including a grace period of 8 years (these terms are consistent also with the possible economic life of the Project and the period - inclusive of the implementation time required - in which substantial return may be expected to accrue) and an interest rate of 1-1/2 per cent are recommended for the loan.

#### IV. LEGAL INSTRUMENTS AND AUTHORITY

15. Drafts of the following loan documents are circulated herewith:

- (i) Draft Special Operations Loan Agreement between the Kingdom of Afghanistan and the Bank; and
- (ii) Side Letters Nos. 1-4.

The Bank's Special Operations Loan Regulations dated 6 May 1969 are incorporated in the Draft Special Operations Loan Agreement subject to the modification set forth in Section 1.01 of the draft Loan Agreement.

16. The Constitution of Afghanistan requires that loans to the Kingdom shall be authorized by the Parliament. Should the Board approve of the proposal, the Government authorities concerned have given assurances that, soon after approval is given and the relevant documents signed, all steps necessary will be taken 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

17. A report entitled "Economic Report on Afghanistan" dated August 1970 (Report No. AFG:Ec-1) was circulated to the Board of Directors in October 1970.

18. Afghanistan is at a very early stage of economic development. The First Five-Year Plan was launched in 1956/57; subsequently, two more plans were implemented and the country now is in the second year of its Fourth Five-Year Plan (1972/73-1976/77). Development so far has been constrained by physical factors such as location, arid conditions and rugged terrain and by inadequate resources. With population growing at the rate of 2.3 per cent per annum and GDP by less than 3 per cent during the last five years, improvement in the standard of living has been only marginal. Per capita GDP in 1971/72, estimated at about US\$77 at 1965/66 prices, is one of the lowest in the region.

19. Afghanistan is predominantly an agricultural and pastoral economy and the production process is essentially of a subsistence type. Agriculture accounts for about half of GDP and provides livelihood for about 80 per cent of the population. Livestock accounts for about one-fifth of the gross value of agricultural output. Growth in the output of agriculture has been rather limited in the past due mainly to shortages of water and irrigation facilities, insufficient supplies

of agricultural inputs and inadequate credit and extension services. In the light of these problems, more emphasis is now being given by the Government to increased agricultural production. The manufacturing sector, which is mainly engaged in the processing of agricultural and forestry produce, is still relatively small. The small size of the domestic market, high transportation costs, the low level of managerial and operational skills and occasional shortages of raw material supplies have impeded the growth of manufacturing.

20. With certain important exceptions, particularly in the southern region (including the Upper Helmand Valley), the development of roads and highways throughout Afghanistan has been at a sustained pace. In the three five-year development plans completed, of a total actual expenditure of Afs. 53 billion, about Afs. 18 billion (approximately 34 per cent), were spent in the transport sector. Transport facilities at present available, however, are still considered to be rather inadequate in relation to Afghanistan's present and prospective transport needs. In a country where topography and the low level of development severely restrict the scope of railways and air transportation, heavy reliance has to be placed on extending the roads network, through construction of secondary and feeder roads, to the greatest extent possible. The Government has formulated its current strategy for development of the transport sector with this need in mind.

21. Afghanistan's trade balance is in a state of almost chronic deficit. Traditional agricultural exports, particularly dried fruits, nuts and livestock products including karakul pelts, are still by far the major source of foreign exchange earnings. Exports of natural gas, however, have been increasing in recent years. Consumer goods account for about 70 per cent of imports. The debt service ratio is high (about 26.4 per cent) and has been increasing.

22. Domestic revenue has experienced rather sluggish growth and the surplus of revenue over ordinary expenditures continues to remain low; ordinary expenditures, including servicing the external debt, have been steadily increasing. Consequently, to enable the necessary increase in development expenditure, there have been persistent deficits in the annual fiscal budgets. The preliminary estimate of expenditures for 1972/73 is Afs. 7,889 million, of which it is estimated that 72 per cent was spent on ordinary purposes and 28 per cent on development purposes.

VI. COMPLIANCE WITH ARTICLES OF AGREEMENT

23. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

VII. RECOMMENDATIONS

24. I recommend that the Board approve the proposed loan in the terms of the following resolution:

LOAN NO. \_\_\_\_ AFG(SF): HELMAND VALLEY  
DEVELOPMENT ROAD  
PROJECT

Approval of loan from the Bank's Special Funds resources to the Kingdom of Afghanistan in an amount equivalent to US\$14,900,000.

RESOLVED:

That the Bank shall make a loan from its Special Funds resources to the Kingdom of Afghanistan in an amount in various currencies equivalent to Fourteen Million Nine Hundred Thousand United States Dollars (US\$14,900,000) to mature on and prior to 15 January 2003 and to bear interest (including service fee at the rate of 3/4 of 1 per cent per annum) at the rate of 1-1/2 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 between the Kingdom of Afghanistan and the Bank presented to this meeting.

SHIRO INOUE  
President

28 March 1973