

AFGHANISTAN

REBUILDING A NATION

ADB Loan to Prompt Recovery in Agriculture

Key policy, institutional, and organizational constraints to agricultural performance to be addressed

The Asian Development Bank will help promote the recovery and growth of Afghanistan's agriculture sector through a concessional loan approved in May 2004 for \$55 million.

Agricultural production supported nearly 85% of Afghanistan's population, and accounted for more than half of the gross domestic product in fiscal year 2002. Economic recovery depends on improvement in the sector.

"As Afghanistan's economy remains overwhelmingly agricultural, the pace of recovery in the sector will largely determine the overall rate of economic recovery and poverty reduction," says Paul Heytens, an ADB principal project economist.

The loan will address key policy, institutional, and organizational constraints to agricultural performance, and promote the sustainable use of natural resources, following the policies in Afghanistan's National Development Framework.

Says Mr. Heytens: "The main task in agricultural recovery is to improve sector performance while rebuilding its resilience through infrastructure investment and adoption of technologies that reduce vulnerability to drought.

"A balance between sustainable natural resource use and meeting the needs of a very poor and rapidly growing population will also need to be struck if the sector recovery process is to be sustained."

The loan includes reforms aimed at strengthening institutions and encouraging

market-based policies in three ministries: Ministry of Agriculture and Animal Husbandry; Ministry of Irrigation, Water Resources and Environment; and Ministry of Rural Rehabilitation and Development.

It will also introduce management systems for the sustainable use of natural resources, focusing on water, critical to an agricultural revival. A drought from 1999–2001, and two decades of war resulted in severe degradation of Afghanistan's natural resource base.

Agriculture production has recovered rapidly over the past two years, but with per capita gross domestic product (excluding opium) of only \$180–190, the country remains one of the world's poorest.

"The process of recovery has begun, but it needs to be broadened and institutionalized to ensure that it is sustained and that deeper inroads toward rural poverty reduction are achieved," says Mr. Heytens.

To meet the estimated \$800 million needed for investment in the agriculture and natural resource management sector over the next three years, the program will help the Government strengthen the process for preparing sector investment programs, especially in irrigation. It will also help establish an



While the process of recovery has begun, it needs to be broadened to ensure people like this farmer are reached

efficient agricultural research and technology transfer system, assess rural finance options, and integrate isolated farming communities into agricultural markets by strengthening farm-to-market linkages.

An accompanying \$1 million technical assistance grant will help the Government carry out and monitor activities under the program loan, including the development of a comprehensive land policy and framework for land titling and administration, and a planned restructuring of agriculture-related state-owned enterprises.

The Ministry of Finance is the executing agency for the loan, which comes from ADB's Asian Development Fund. The loan carries a 40-year term, including a grace period of 10 years, and an interest rate of 1.0% per annum. In addition, interest normally payable during the grace period will be capitalized to the loan account, meaning no repayments of any kind are required until 2014. The project is due for completion in September 2005. ■

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ADB Plans \$1 Billion in Assistance

Highly concessional loans, grants, equity investments, and guarantees all part of package

BERLIN, GERMANY

The Asian Development Bank will provide about \$1 billion in assistance to Afghanistan for 2005–2008, ADB President Tadao Chino announced on 31 March 2004 at an international conference in Berlin on the country's future.

"The challenges facing Afghanistan today are large and complex. Clearly, the country requires longer term commitments and significant amounts of technical and financial support for its new policies and development programs from the international community," Mr. Chino said in a session during "Afghanistan and the International Community—a Partnership for the Future."

ADB will also consider "assistance to Afghanistan in the order of \$800 million in the form of highly concessional Asian Development Fund (ADF) loans and grants during 2005–2008, subject, of course, to the outcome of ongoing ADF negotiations and the future availability of ADF," he said.

In addition to the \$800 million, ADB has identified loan and equity investments of up to \$100 million in partnership with local and foreign investors, as well as guarantees of about \$100 million to encourage private sector investment in Afghanistan.

Additionally, Mr. Chino said ADB will

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Tadao Chino
President, Asian Development Bank

seek cofinancing in support of its programs and projects, and will continue to provide technical assistance to the Central and South Asia Trade and Transit Forum, where issues pertaining to subregional trade and transport may be discussed.

The two-day conference reviewed the broad plans contained in the Afghan Gov-



Ali Azimi (x2)
Securing Afghanistan's future and improving its citizens' lives will require the efforts of many diverse partners

ernment report, "Securing Afghanistan's Future." Prepared in collaboration with ADB, International Monetary Fund, United Nations Development Programme, United Nations Assistance Mission for Afghanistan, and the World Bank, the report sets out a framework for reconstruction and development.

Afghan President Hamid Karzai and international delegates also examined the security and political progress of the country, which is emerging from decades of conflict.

Mr. Chino praised the Government's strong commitment to political, economic, and social reforms, and solid progress in tackling difficult issues of governance. "Afghanistan has made good use of aid provided. For instance, government compliance with the terms and conditions of the ADB-financed \$150 million Postconflict Multisector Program approved in 2002 was exemplary."

ADB has fully translated its pledge of \$500 million at the Tokyo Conference (in 2002) into a portfolio of loans and grants addressing priority reconstruction needs, including those to be approved in 2004.

ADB has followed three basic principles in its support for Afghanistan's reconstruction: build capacity, establish appropriate policy and institutional frameworks, and rehabilitate essential infrastructure. At the Government's request, ADB has focused its operations on the transport, energy, natural resource management, governance, and financial sectors. ■



ADB has followed three basic principles in its support for Afghanistan's reconstruction: build capacity, establish appropriate policy and institutional frameworks, and rehabilitate essential infrastructure to help provide more opportunities to families like this one

Afghan Economic Outlook Upbeat

Afghanistan's economy could expand 15% annually through 2008, and 10% in each of the five years after that. This robust forecast is lent credibility by increasing political stability and establishing institutions to help develop the country.

ALoya Jirga adopted a new constitution on 4 January 2004, moving the country a step closer to political reunification, while presidential and parliamentary elections planned for September 2004 will establish the national institutions needed to further stabilize the country.

“Good weather and sound economic policies, as well as partner aid, have generated a significant rebound in gross domestic product,” says ADB in the *Asian Development Outlook 2004*.

The International Monetary Fund (IMF) estimates the economy expanded 23% in fiscal year (FY) 2003, driven by strong growth in agriculture, and a donor-financed expansion of services and construction.

Agricultural production supported nearly 85% of Afghanistan's population, and accounted for more than half of the gross domestic product in FY2002, estimates suggest. Recovery of the sector, which suffered heavily during two decades of war, will largely determine the overall rate of economic recovery and poverty reduction, say ADB officials.

It is with that in mind that ADB, in May 2004, approved a \$55 million concessional loan to promote agricultural growth through market-based policy reforms, formulation of public infrastructure investment programs, and institutional reform and organizational capacity building.

Agricultural production recovered after 3 years of drought (in 1999–2001). Wheat production rose by 83% in 2002 and by another 62% in 2003 to 4.4 million tons, boosted by an increase in the area under cultivation and in crop yield.

Evidence suggests there is considerable potential for expanding irrigated areas; improving irrigation efficiency; increasing yields of both irrigated and rain-fed crops; shifting emphasis to low-volume, high-value crops for domestic consumption and exports; revitalizing production of industrial crops; and improving productivity of livestock and promoting dairy activities.

However, continued progress in the agriculture sector is threatened by the recurrence of drought, further degradation of irrigation systems and natural resources, and a resumption of civil conflict.



Ali Azimi

Good harvests and lower prices are expected to improve food access for most Afghan households, although depressed cereal prices could hurt farmers

IMF estimate the Afghan economy expanded 23% in fiscal year 2003, driven by a strong growth in agriculture and a donor-financed expansion of services and construction

Livestock operations have also been hurt by drought and war. The 3-year drought is estimated to have markedly reduced herd numbers, resulting in a decrease in fresh milk and indigenous beef production.

Indeed, since the early 1980s, the size of herds has gone through cycles of decimation, reconstitution, and increase.

And livestock enterprises are still beset by serious problems, including disease and lower productivity caused by overgrazing and reduced feed.

The continuation of good harvests and lower prices, alongside new employment opportunities, is expected to improve food

access for most Afghan households. However, depressed cereal prices could hurt farmers and push many further into poverty.

Afghanistan's industrial sector, meanwhile, was ravaged by the Soviet occupation and civil conflict. Textiles, cement, matches, processed foods, and cottage-based craft works were shut down or were operated at a fraction of capacity.

Nonetheless, in industry, a construction boom is under way in certain urban areas (especially Kabul), driven in large part by the international community's spending and emergency assistance efforts. In services, numerous hotels and guesthouses have been renovated or opened since the beginning of 2002. Retail trade, auto repair shops, and restaurant businesses have burgeoned, and taxis, trucks, and donor vehicles now clog Kabul's streets.

The country is rich in minerals. However, except for natural gas and precious stones, potential is underexploited. Other minerals include coal, iron ore, copper, zinc, uranium, mercury, gold, and salt. In addition, an estimated 250 billion cubic meters of natural gas could be tapped for power generation, fertilizer production, and petrochemicals.

Meanwhile, poppy production again has become a significant feature of the economy.

The Taliban regime forcefully banned poppy cultivation in July 2000, but the practice has revived, and the country has once again become the world's largest producer of illicit opium.

Ready profitability and easy transport of poppies make poor farmers, with few viable alternatives, dependent on drug-crop production. The United Nations Office on Drugs and Crime estimates the value of opium exports in 2002 at about \$2.5 billion, making it the country's largest single export item.

The IMF estimates that including opium exports would bring FY2002 GDP to \$6.5 billion, or about 40% of GDP. Expenditures stemming from drug-export income generate substantial demand, production, and income in other sectors of the economy. A reduction in poppy cultivation will therefore slow economic growth unless alternatives are found.

The Afghan Government is trying to foster development of the real sector through responsible fiscal and monetary management. In its first budget, the Government met 90% of the FY2002 expenditure target in domestic currency (afghani) terms. The revenue target of \$83 million was exceeded by 59% (60% of total revenues were from customs). However, provincial authorities, which collect the bulk of customs duties, remitted to the national Government only a relatively small amount of revenues collected. The financing gap of \$232 million for FY2002 was fully met by donors.

ADB's objective in Afghanistan is to ensure a smooth transition from humanitarian to reconstruction and development assistance. The emphasis is on broad-based, pro-poor growth.

In the transport and energy sectors, ADB supported the rehabilitation of national roads, power transmission facilities, and the gas subsector to help revive the national economy.

Operations in the agriculture and natural resource sector rehabilitated production and irrigation systems and worked toward eliminating poppy cultivation. ADB also provided technical assistance for public administration reform, budgetary management, poverty assessment, and statistical capacity building.

Since September 2001, ADB has assumed a key role in international efforts to assist in Afghanistan's reconstruction, drawing on its experience in providing postconflict assistance in Cambodia, Sri Lanka, Tajikistan, and Timor-Leste.

At the 2002 Tokyo Conference, ADB

ADB Assistance to Afghanistan

Loans: \$355 million

Postconflict Multisector Program

Approved: 4 December 2002
Amount: \$150 million

Emergency Infrastructure Rehabilitation and Reconstruction

Approved: 3 June 2003
Amount: \$150 million

Agriculture Sector Program

Approved: 4 May 2004
Amount: \$55 million

Grants Technical Assistance: \$26.35 million

Capacity Building for Reconstruction and Development

Approved: 30 May 2002
Amount: \$14.5 million¹

Disaster Preparedness and Management Capacity Building

Approved: 30 May 2002
Amount: \$500,000

Energy Sector Review and Gas Development Master Plan

Approved: 18 March 2003
Amount: \$950,000

Power Transmission and Distribution

Approved: 13 August 2003
Amount: \$750,000

Herat-Andkhoy Road Project

Approved: 17 September 2003
Amount: \$1 million

Regional Airports Rehabilitation

Approved: 5 November 2003
Amount: \$1 million

Institutional Strengthening of the Gas Sector

Approved: 3 December 2003
Amount: \$750,000

Support for Public Administration Reform Program

Approved: 11 December 2003
Amount: \$3.4 million

Poverty Assessment and Socioeconomic and Macroeconomic Statistical Capacity Building

Approved: 26 December 2003
Amount: \$1.75 million

Preparing the National Power Transmission Grid Project

Approved: 26 February 2004
Amount: \$750,000

Capacity Building for Agriculture Policy Reform

Approved: 5 May 2004
Amount: \$1 million

Grants Projects: \$65 million

Community-Based Gender-Sensitive Basic Education for the Poor

Approved: 10 September 2002
Amount: \$4 million (Government of Japan/Japan Fund for Poverty Reduction [JFPR])

Road Employment Project for Settlement and Integration of Returning Refugees and Displaced Persons

Approved: 3 October 2002
Amount: \$15 million (JFPR)

Primary Health Care Partnership for the Poor

Approved: 19 December 2002
Amount: \$3 million (JFPR)

Road Employment Project for Settlement and Integration of Returning Refugees and Displaced Persons (supplementary)

Approved: 26 May 2003
Amount: \$15 million (Kuwait Fund for Arab Economic Development)

Emergency Infrastructure Rehabilitation and Reconstruction

Approved: 19 December 2003
Amount: \$20 million (JFPR)

Integrated Community Development in Northern Afghanistan

Approved: 26 December 2003
Amount: \$3 million (JFPR)

Rural Recovery through Community-Based Irrigation Rehabilitation

Approved: 26 December 2003
Amount: \$5 million (JFPR)

¹ Not including grant cofinancing from Denmark for renewable energy (\$540,000), and from Australia for technical assistance to the Ministry of Finance (\$407,000)

pledged \$500 million in concessional loans and grants by June 2004, assigning the assistance the highest priority. Since then, ADB has fully translated its pledge into a comprehensive assistance portfolio of programs and projects addressing priority reconstruction needs, including those to be approved in 2004. ADB will consider assistance in the order of \$800 million in highly

concessional ADF loans and grants during 2005–2008. In addition, ADB has identified loan and equity investments of about \$100 million in partnership with local and foreign investors, and guarantees of about \$100 million to catalyze private investments. With these initiatives, ADB assistance to Afghanistan will exceed \$1 billion during 2005–2008. ■