

**REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
BOARD OF DIRECTORS  
ON A  
PROPOSED LOAN  
AND TECHNICAL ASSISTANCE GRANT  
TO THE  
ISLAMIC REPUBLIC OF AFGHANISTAN  
FOR THE  
AGRICULTURE SECTOR PROGRAM**

**April 2004**

## CURRENCY EQUIVALENTS

(as of 30 March 2004)

Currency Unit	–	Afghani/s (AF)
AF1.00	=	\$0.0200682
\$1.00	=	AF49.83

## ABBREVIATIONS

ADB	–	Asian Development Bank
ARCSC	–	Administrative Reforms and Civil Service Commission
ARTTS	–	Agricultural Research and Technology Transfer System
CNA	–	comprehensive needs assessment
CG	–	consultative group
DAB	–	Da Afghanistan Bank
DCS	–	Department of Cadastral Survey
EA	–	Executing Agency
EPA	–	Environmental Protection Act
FAO	–	Food and Agriculture Organization of the United Nations
GDP	–	gross domestic product
ha	–	hectare
IA	–	implementing agency
IMF	–	International Monetary Fund
ISAF	–	International Security Assistance Force
MAAH	–	Ministry of Agriculture and Animal Husbandry
mt	–	metric ton
MISFA	–	Microfinance Investment and Support Initiative for Afghanistan
MIWRE	–	Ministry of Irrigation, Water Resources and Environment
MLIFS	–	Ministry of Light Industry and Foodstuffs
MOC	–	Ministry of Commerce
MOF	–	Ministry of Finance
MRRD	–	Ministry of Rural Rehabilitation and Development
NATO	–	North Atlantic Treaty Organization
NDB	–	National Development Budget
NDF	–	National Development Framework
NGO	–	nongovernment organization
PMPL	–	Postconflict Multisector Program Loan
PRR	–	Priority Reforms and Restructuring
SOE	–	state-owned enterprise
SY	–	solar year
TA	–	technical assistance
TAC	–	technical assistance cluster
UN	–	United Nations
UNODC	–	United Nations Office of Drug Control

## NOTES

- (i) The fiscal year (FY) of the Transitional Government begins on 22 March. FY before.
- (ii) In this report, "\$" refers to US dollars.

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## LOAN AND PROGRAM SUMMARY

<b>Borrower</b>	Afghanistan
<b>Classification</b>	Poverty intervention. Thematic: Economic growth.
<b>Environment Assessment</b>	Category C. Environmental implications were reviewed, and no adverse environmental impacts were identified.
<b>Program Description</b>	The Program addresses the key policy, institutional, and organizational constraints to the effective and efficient functioning of agricultural activity and the sustainable use of natural resources. The Program includes specific reform measures to (i) develop a sound policy framework and establish efficient sector institutions, (ii) introduce management systems for sustainable use of natural resources, (iii) formulate sound programs for sector investment, (iv) improve the efficiency of sector support services, (v) improve the efficiency of agricultural commodity markets, and (vi) restructure state-owned enterprises (SOEs).
<b>Rationale</b>	<p>The agriculture and natural resource management sector has suffered from varying degrees of depredation for nearly 25 years. A combination of war, civil conflict, and enforced neglect have combined to leave a legacy of degraded natural resources, especially of forests and rangeland; damaged infrastructure; and fragmented sector institutions. While nongovernment organizations (NGOs) and United Nations agencies have worked effectively with rural communities throughout this period and have had positive impacts at the local level, the severe drought in 1999–2001 has worsened the degradation. Further, although cereal production rebounded dramatically with the improved weather in 2002–2003, crop yields are still very low and overall performance of the sector remains well below its potential.</p> <p>The main task of sector recovery is to improve sector performance while rebuilding its resilience through infrastructure investment and adoption of technologies that reduce vulnerability to drought. The process of recovery has indeed begun, but needs to be broadened and institutionalized to ensure that it is sustained and that deeper inroads toward rural poverty reduction are achieved. 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. As the economy remains overwhelmingly agricultural, the pace of recovery in the sector will largely determine the overall rate of economic recovery.</p> <p>The Asian Development Bank (ADB) has worked closely with the Government and other development partners to</p>

define the required policy and institutional reforms under the Program. The concessional loan funds will help to meet the adjustment costs associated with these reforms. The technical assistance (TA) piggybacked to the loan, ADB's ongoing technical assistance cluster (TAC), and other TA for Afghanistan will further support the reform process.

**Objectives**

The program goal is to promote agricultural growth and poverty reduction through support for market-based policy reforms, formulation of public infrastructure investment programs, and institutional reform and organizational capacity building. The program purpose is to enhance opportunities for sector revival by addressing key policy, institutional and organizational constraints to the efficient and effective functioning of agriculture and the sustainable use of natural resources. The Program therefore supports the national objective of household food security and of ending Afghanistan's dependence on food aid, and will accelerate the recovery of the broader national economy.

**Cost Estimates**

The adjustment and other costs of the policy and institutional reforms addressed by the program loan are estimated to be at least \$94 million. The loan proceeds will be used in part to finance some of these adjustment costs. Other funding agency sources have also been identified to finance a portion of the costs. Further, many of the adjustment costs will only arise over the longer term and it is expected that the Government's fiscal capacity will strengthen over time to enable it to meet the remaining financial commitments without any difficulty. There is no investment component under the Program.

**Financing Plan**

The Government has requested a loan equivalent to \$55 million from ADB's Asian Development Fund resources to support the proposed Program, as indicated in the attached development policy letter. The loan will be released in two installments upon satisfactory compliance with agreed-upon conditions. The first tranche of \$30 million equivalent will be made available upon loan effectiveness. The second tranche of \$25 million equivalent is expected to be made available about 12 months later upon satisfactory compliance with agreed-upon conditions, as well as continued compliance with all previous tranche conditions.

**Loan Amount and Terms**

A loan of Special Drawing Rights 37,581,000 will be provided from ADB's Asian Development Fund to support the Program. The program loan will have a repayment period of 40 years, including a grace period of 10 years, and carry an interest rate of 1.0% per annum. In addition, the interest charge during the grace period will be capitalized and charged to the loan account.

<b>Allocation</b>	The proceeds of the loan will be used to finance the foreign exchange costs of items produced and procured in ADB member countries (except items specified in the negative list and imports financed by bilateral and multilateral sources). The Government will certify that the volume of imports exceeds the amount of ADB's projected disbursements under the loan for the given period. Counterpart funds generated by the loan will be used by the Government to meet program expenditures and related costs of reforms. No relending is planned under the program. ADB will retain the right to audit the use of the loan proceeds and to verify the accuracy of the Government's certification. To facilitate the timely release of funds to meet adjustment costs, the loan proceeds may be used to finance eligible imports incurred within 180 days before the date of loan effectiveness.
<b>Period of Utilization</b>	The program loan will be disbursed within a period of 18 months, beginning from the date of loan effectiveness.
<b>Estimated Program Completion Date</b>	30 September 2005.
<b>Loan Closing Date</b>	30 April 2014.
<b>Implementation Arrangements</b>	The Ministry of Finance (MOF) will be the Executing Agency (EA) and will be responsible for disbursing the loan proceeds and maintaining records. The Ministry of Agriculture and Animal Husbandry (MAAH), Ministry of Irrigation, Water Resources and Environment (MIWRE), Ministry of Rural Rehabilitation and Development (MRRD), Ministry of Light Industries and Foodstuffs (MLIFS), Ministry of Commerce (MOC) Da Afghanistan Bank (DAB), and the Administrative Reforms and Civil Service Commission (ARCSC) will be implementing agencies (IAs). Each IA will be responsible for implementing the relevant policy and institutional reforms in its sector. A national steering committee will be formed, chaired by the Minister of Finance or his representative, to coordinate policy decisions that may need to be taken to pursue reforms under the Program.
<b>Executing Agency</b>	Ministry of Finance.
<b>Consulting Services</b>	No consulting services will be directly provided under the loan, but TA will be attached to the Program to help monitor implementation and support compliance with the second tranche conditions. Capacity building in the areas covered under the Program will also be facilitated by linking program implementation and monitoring with the consultants engaged under the TAC.



## **Project Benefits and Beneficiaries**

The Program will promote accelerated agricultural growth and poverty reduction through its support for market-based policy reforms, formulation of public infrastructure investment plans, and institutional reform and organizational capacity building in key public ministries. The Program will also build capacity within the relevant government ministries to efficiently manage Afghanistan's natural resources, thus enhancing the sustainability of the development process. Specific beneficiaries are expected to include the rural poor, small and marginal farmers, nomadic pastoralists and other livestock herders, returning refugees, internally displaced persons, and demobilized combatants.

The following benefits can therefore directly or indirectly be attributed to the different program components: (i) improved public sector efficiency and effectiveness; (ii) improved efficiency and more sustainable use of natural resources, particularly of water; (iii) improved resource mobilization from domestic sources for rehabilitation and reconstruction; (iv) improved economic management; (v) improved credit delivery in rural areas; (vi) deeper and more efficient agricultural commodity markets; (vii) increased private sector participation; (viii) enhanced institutional efficiency in service delivery; (ix) improved fiscal stability; and (x) a more diversified agriculture production base.

## **Risks and Assumptions**

Implementation of the Program entails the following risks:

Government commitment to the reform process could weaken in the run up to the national elections later this year, and a change in government in the wake of those elections might result in a policy shift. While these risks are difficult to mitigate, the Government's ability to push through a new constitution and its performance in pursuing difficult reforms under the Postconflict Multisector Program Loan (PMPL), in particular the recent passage of the Central Bank Law and Banking Law, indicates a strong commitment to pushing ahead with the structural reform agenda. In addition, a strong consensus has emerged in the country, including civil society and the NGO community, on the need for far-reaching reforms in the agriculture sector

The overall political and security situation remains a concern. However, increased funding has been mobilized to finance reforms in the security sector, including the police, and the mandate of the North Atlantic Treaty Organization (NATO)-led International Security Assistance Force (ISAF) has been expanded to cover areas outside Kabul. These developments are expected to result in an improvement in the security situation throughout the country.

Weak institutional capacity may also delay implementation of the reform agenda. ADB's TAC for capacity building and other TA

financed by ADB and development partners has been mobilized to help build capacity in the relevant government agencies. In addition, the reforms initiated under the Program will themselves help to build implementation capacity within the Government.

The macroeconomic and budgetary situation may worsen, causing a diversion of funds from meeting the adjustment and other costs associated with the Program's policy and institutional reforms. However, revenue mobilization has improved in the past year as a result of customs reform and recent steps taken by the provinces to remit funds to the central Government, and it is expected that these positive trends will continue with assistance from the International Monetary Fund.

### **Technical Assistance**

A TA grant in the amount of \$1 million will be provided to assist the Government in (i) program coordination and monitoring, (ii) developing a comprehensive land policy and an appropriate institutional framework for land titling and administration, (iii) assessing the human resource needs of the core sector ministries, (iv) assessing institutional options to meet the full spectrum of rural credit needs, (v) improving the efficiency of agricultural commodity markets, and (vi) developing procedures for restructuring and divesting SOEs. All procurement under the TA grant will be in accordance with ADB's *Guidelines for Procurement*. The selection and engagement of consultants will be done by ADB through a firm in accordance with ADB's *Guidelines on the Use of Consultants*. MOF will be the EA for the TA.

# AFGHANISTAN AGRICULTURE SECTOR PROGRAM LOAN



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Islamic Republic of Afghanistan for the Agriculture Sector Program. The report also describes proposed technical assistance (TA) for Capacity Building for Agriculture Policy Reform, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, will approve the TA.

## II. THE MACROECONOMIC CONTEXT

2. A new opportunity for the peaceful development of Afghanistan emerged with the fall of the Taliban regime in late 2001 and the subsequent political agreement reached between the various Afghan factions in Bonn. An Afghan Interim Administration was appointed in the wake of that agreement and governed the country until an Emergency *Loya Jirga* (grand council) was convened in June 2002, which chose a new transitional administration headed by President Hamid Karzai that was to remain in office for 2 years. The transitional administration (Government) is charged with the task of preparing a new constitution and conducting free and fair elections to establish a fully representative government. A new constitution enshrining a strong presidential system of government was approved in early January by a Constitutional *Loya Jirga*, paving the way for democratic national elections later this year.

3. The Government has from the outset been strongly committed to achieving financial stability and maintaining fiscal discipline to support economic reconstruction and recovery. In particular, the economy is to be based on liberal and open markets, led by private sector activity with minimal state intervention. The Government's capacity to coordinate and manage the reconstruction process was also strengthened following adoption of the National Development Framework (NDF) in April 2002 (Appendix 1). The NDF focuses on three pillars of development: (i) security and human development, (ii) rebuilding physical infrastructure, and (iii) enabling the creation of a viable private sector as the engine for sustainable and inclusive economic growth. For each of these pillars, broad sectoral programs have been developed and individual consultative groups (CGs) established to provide a mechanism to identify and select projects within the overall resource constraints, as well as to coordinate foreign aid flows.<sup>1</sup> This has since been followed by the preparation of annual national development budgets (NDBs), which seek to translate the broad programs and priorities of the NDF into detailed and prioritized investment programs to be funded through the formal budgetary process.

4. Impressive progress has been made in achieving macroeconomic stability, and the economy shows strong signs of recovery (Appendix 2). Real gross domestic product (GDP), excluding opium production, is estimated to have grown by almost 30% in 2002/03<sup>2</sup> and is expected to expand at a rate of about 20% in 2003/04. This recovery is most visible in agriculture, reflecting the end of a prolonged drought, and in the construction and services sectors, where rapid expansion is being driven by funding agency assistance. Prices have remained broadly stable since the successful completion of a currency conversion in early January 2003, reflecting sound monetary and fiscal policies as well as ample staple food supplies. Average inflation for 2003 was virtually zero and exchange rate stability has been

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<sup>1</sup> The Asian Development Bank (ADB) is the focal point for transport, agriculture and natural resource management, and environment. ADB is also a member of two other CGs covering energy, mining and telecommunications; and public administration and economic management. ADB staff are actively engaged in the proceedings of the CGs.

<sup>2</sup> This corresponds to the Afghan solar year (SY) 1381, which ran from 21 March 2002 to 20 March 2003. The SY 1382 runs from 21 March 2003 to 20 March 2004.

established with the rate fluctuating between AF48-50 per dollar, signaling the population's confidence in the new currency.

5. Significant progress has also been made in improving fiscal and financial sector management. The biggest strides in regard to the former have come on the expenditure side, which has enabled the Government to resume providing basic public services to the population. While fiscal management in the provinces remains problematic, the recent streamlining of provincial accounts and their planned consolidation into the central accounts at Da Afghanistan Bank (DAB) will facilitate more effective revenue centralization. These efforts have already started to pay off and significant revenues are now being transferred from the provinces. A major step forward in the financial sector was the recent adoption of the new Central Bank Law and Banking Law. This paves the way for further central bank modernization and the entry of new commercial banks into Afghanistan. The new Central Bank Law in particular provides a framework for an independent, yet accountable, monetary policy and the creation of a sound financial system. Diagnostic studies have been carried out on the six existing commercial banks, which had virtually ceased to function in recent years, and strategies for reform and restructuring are under preparation for those that have qualified for a new banking license.

6. Notwithstanding the strong economic recovery and recent progress in structural reform, the remaining reform agenda and financial requirements for continued progress are vast. With a per capita GDP (excluding opium) of only \$180–190, one of the lowest levels in the world, serious inroads into poverty reduction or even attaining the income levels of neighboring countries will require strong economic growth for many years to come. Afghanistan will therefore continue to require substantial international assistance in the coming years to sustain recovery, growth, and poverty reduction. Although external assistance has been sizable, a comparison of per capita aid levels with other recent post-conflict countries suggests that aid flows to Afghanistan up to this point have been relatively low. Moreover, financial support will have to be overwhelmingly in the form of grants or highly concessional borrowing in order to ensure that Afghanistan's external debt position is sustainable over the medium term.<sup>3</sup>

7. While the economy should continue to recover, a number of serious risks remain. In particular, the security situation remains very fragile. Poor security complicates macroeconomic management and prevents reconstruction from taking hold in many areas outside the Kabul. The reemergence of opium production is having a profound impact on the economy and there is a risk that its pervasive corrupting influence could become entrenched. There is also a risk that the financial support of international donors, which has been so critical to the recovery so far, could weaken prematurely. Ultimately, the economic outlook will depend on the Government's ability to maintain political as well as macroeconomic stability and to adopt strong policy measures. In particular, sustainable growth over the medium term will require substantial private investment, particularly as this will increasingly need to take the place of official assistance. A significant increase in private investment will in turn require adequate security and stability, as well as strong policy measures to create an environment conducive to such investment. The latter includes creating a market-oriented regulatory framework and a fair and functioning legal system, to firmly establish the rule of law and the security of property rights.

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<sup>3</sup> Various analyses suggest that debt sustainability will be difficult to achieve without very generous relief of existing claims. The bulk of these consist of claims of the former Soviet Union. These claims (nearly \$10 billion equivalent), now from the Russian Federation, are currently under dispute, as the Government does not recognize them as they were largely accumulated during the period of Soviet intervention.

### III. THE SECTOR

#### A. Sector Description and Performance

##### 1. Description of the Natural Resource Base

8. The agriculture and natural resource sector has suffered from varying degrees of deprecation for nearly 25 years (Appendix 3). A combination of war, civil conflict, and enforced neglect have combined to leave a legacy of degraded natural resources, especially of forests and rangeland; damaged infrastructure; and fragmented sector institutions. While nongovernment organizations (NGOs) and United Nations (UN) agencies have worked effectively with rural communities throughout this period and have had positive impacts at the local level, the overall performance of the sector has been poor. The severe drought in 1999–2001 has worsened the degradation, reducing the cultivated rainfed area to less than 0.5 hectares (ha) per annum (compared with an arable area of about 4 million ha). Rainfed cereal productivity levels were very low during the recent drought years, averaging only about 0.6 metric tons (mt) per ha, and rainfed cereal production fell to about 10% of expected production in a normal rainfall year.

9. Although population pressures are increasing, Afghanistan has the capacity to mobilize over 7.5 million ha of cultivated land, of which 60% could be irrigated and 20% double-cropped. This degree of land and water use amounts to about 0.4 ha per capita, a relatively generous ratio by regional standards. About 30% of the total cultivated land was irrigated in 1999, much of which was through community-based small and medium-sized irrigation (river valley) schemes. The effects of war, drought, and neglect of these systems have not been systematically assessed, but the Food and Agriculture Organization of the United Nations (FAO) estimated in 1997 that about 1.7 million ha required rehabilitation, and another 0.7 million ha required improved water management. In addition, Afghanistan has 29 million ha of rangeland for use by livestock, but animal numbers have fallen to about half the level of a decade ago, due to the years of conflict and prolonged drought.

10. Forest cover is currently estimated at about 1.3 million ha, down from 1.9 million ha in 1996 and 2.2 million ha in the early 1980s. In recent years, forest cover has diminished, due to community demands for fuelwood and illegal logging. Similarly, many orchards were cut down for firewood during harsh winters or destroyed during fighting. It is estimated that forest offtake rates are currently exceeding annual regeneration rates, leaving a deficit of about 30,000 ha of forest per year. Afghanistan will have little forest and wildlife left in 15 years' time if deforestation continues at this pace. The demand for fuelwood by communities is estimated to be less damaging than illegal logging, but is nevertheless destructive. Similarly, recent years have witnessed the cultivation of rangeland as communities sought ways to mitigate the effects of drought and population pressure in some areas. The widespread degradation of forests and rangeland has resulted in flooding, water scarcity, and severe soil degradation in many areas.

##### 2. Recent Trends and Performance

11. Agriculture production, which is estimated to support nearly 85% of the country's population and account for over 50% of GDP,<sup>4</sup> has recovered rapidly over the past two years

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<sup>4</sup> This estimate is based on data from the early 1990s. The share of agriculture in Afghanistan's GDP may well be larger, given the level of destruction of the country's infrastructure and industrial base.

with the return of normal rainfall and improved availability of quality seeds, fertilizers and other agricultural inputs. The FAO and the World Food Program estimated that total cereal production (primarily wheat) was up by nearly 80% in 2002/03, reaching 3.6 million tons, compared to about 2 million tons in the preceding year. With continued good precipitation, cereal production is estimated to have increased by another 50% during the main 2003/04 cropping season, reaching 5.4 million tons, broadly the level Afghanistan needs to achieve aggregate self-sufficiency in foodgrains.<sup>5</sup> Contributing to this increase was the use of land that was left fallow during the drought. However, by putting virtually all idle land back into production at the same time, cereal production has likely reached its upper limit within the current production capacity. Many land plots will need to be left fallow in the coming year before they can be planted again, which may result in lower production levels in 2004/05. The production of fruits and vegetables, as well as a range of livestock-related products (dairy, meat, wool, and hides), has also increased over the past two years, but will take longer to reach pre-conflict levels given the sharp reduction in livestock herds and destruction of orchards.

12. With the recovery in agriculture production, poppies have also re-emerged as a major cash crop. Although poppy cultivation was negligible in 2001 following the successful ban introduced by the Taliban during the previous year, production in 2002 surged to over 3,500 tons of opium or 75% of the record harvest of 1999. The UN Office on Drugs and Crime (UNODC) estimates that opium production increased further to nearly 4,000 tons in 2003. In addition, the number of provinces where poppy is grown has increased from 18 out of 32 in 1999 to 28 presently. It is noteworthy that production in nontraditional growing areas now represents nearly one-quarter of total production and has expanded by over 300% since 2002. The UNODC estimates that 264,000 families or roughly 7% of the population are now deriving a direct income (estimated at about \$3,900 per family, or three times the national average income) from poppy cultivation.

## **B. Issues and Opportunities**

### **1. Strategic Considerations**

13. In 1978, Afghanistan's population of 14 million was self-sufficient in cereals and had a flourishing export market in horticultural products. The population is presently estimated at about 20 million, with a rural population of around 16.5 million. Over the past 20 years, agricultural technologies have advanced substantially, enabling agricultural systems globally to more than keep pace with population increases. On this basis, it is not surprising that Afghanistan was able to so quickly regain aggregate self-sufficiency in cereals. While this is a desirable near-term achievement, it is unlikely to be economically efficient over the longer term, as maintaining self-sufficiency would depend on investment in increasingly high-cost irrigation systems that would not be justified by the economic returns from cereal production. Given apparent comparative advantages, a more prudent longer-term strategy might involve importing much of Afghanistan's staple food needs, while focusing on the production of high-value export crops. However, such shifts in production would only be realized over the longer term, and would need to be driven by farm-level decisions based on relative returns of alternative crops.

14. The main task of sector recovery is to improve sector performance while rebuilding its resilience through infrastructure investment and adoption of technologies that reduce

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<sup>5</sup> This does not mean that Afghanistan will not require food assistance. While sufficient grains may be available in the aggregate, not every Afghan will have access to it. Many Afghans will therefore remain dependent on food aid.

vulnerability to drought. The process of recovery has indeed begun, but needs to be broadened and institutionalized to ensure that it is sustained and that deeper inroads toward rural poverty reduction are achieved. 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. As the economy remains overwhelmingly agricultural, the pace of recovery in the sector will be a key driver of overall economic growth.

## 2. Comprehensive Needs Assessment

15. A multifunding agency mission led by ADB initiated a comprehensive needs assessment (CNA) for the agriculture and natural resource management sector in February 2002 following the Tokyo Conference on Reconstruction Assistance to Afghanistan in January 2002.<sup>6</sup> This laid the foundation for a more in-depth needs assessment mission in April–May 2002. These missions consulted extensively with the concerned government ministries and worked closely with the Afghan Assistance Coordination Agency. The mission also consulted extensively with all major funding agencies, as well as key NGOs working in the sector, and undertook field visits to Bamiyan province, the Panjshir valley, and the Sharmali plains.

16. The terms of reference of the CNA focused on developing a series of subsector development programs split into two time frames, a short-term program to be completed within 1–2 years, and a medium-term program to be implemented over 5 years. The subsector development programs in turn were to comprise investment activities, plans for institutional reform and capacity building, and policy reforms. The assumption underlying the formulation of these programs was one of a market-led economy with the Government pursuing prudent fiscal and monetary policies and a liberal trade regime. The CNA was also premised upon continued political stability and a return to normal climatic conditions. The vision for the sector that was to emerge from the CNA was also to reflect the principles laid down in two key documents—the January 2002 speech of then Afghanistan Interim Administration Chairman Hamid Karzai at the Tokyo Conference and the NDF. The key principles are as follows:

- (i) The people of Afghanistan must own and implement the development agenda, within a common strategic framework.
- (ii) The private sector should be the principal instrument of economic growth, within an appropriate enabling policy framework.
- (iii) All sections of the rural population should participate in decision making, and a community-based approach should promote this participation.
- (iv) Investment in human capital and maximum use of Afghan expertise is essential to the recovery process.
- (v) Investment decisions by external funding agencies must sit firmly within the sector framework and related budgetary norms.

17. The findings of the CNA were presented in a comprehensive final report in June 2002 setting out a development framework for the sector, comprising subsector strategies and an assessment of needs over the two time frames. Separate sections cover institutional and capacity-building needs, the policy reform agenda, and implementation strategies. The development framework detailed the need for a number of key policy reviews and preparatory work toward developing a comprehensive policy reform agenda over a 2–3 year time frame. The framework has subsequently evolved following consultations with the Government and through

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<sup>6</sup> This included, in addition to ADB, the FAO, World Bank, and United Nations Development Programme.



the work of the sector CG, and was updated as part of a major multisector “recosting” exercise that identified the priority areas and external financing requirements for investment projects over a seven-year time frame. The details of this latter exercise are set out in a report entitled “Securing Afghanistan’s Future” issued in January 2004.

### 3. Lessons Learned from Asian Development Bank Operations

18. A number of important lessons have been learned from ADB’s policy-based lending operations in agriculture that are relevant to reform programs for agriculture and natural resource management in Afghanistan. These include recognition of the importance of:

- (i) **Government ownership of reforms.** Experience has shown that sector reform programs are more successful when they build upon and accelerate government-initiated reform processes rather than seek to impose externally conceived policy agendas.
- (ii) **Phasing difficult policy reforms.** In view of the dislocations that policy change can cause and the adverse short-term impact of reform on specific groups, it is sometimes necessary to pursue an incremental pace of reform. This may be accomplished through a succession of program loans, or through adoption of a longer time frame for program implementation together with multiple tranching.
- (iii) **Flexibility in applying loan conditionality.** Sector development plans and policies need to be adapted and modified in line with changing circumstances. Flexibility is therefore necessary in assessing the continued relevance and appropriate timing of loan conditions.
- (iv) **Continued policy dialogue.** Regular review and consultation missions, close involvement of resident missions, and ongoing analysis of the impacts of policy changes through the provision of concurrent advisory TA have been shown to be essential ingredients of successful reform program implementation.

19. A 2001 study by the Operations Evaluation Department found that program loans rated as generally successful shared three common characteristics. First, the government took the major role in designing the program measures and in implementing them. Second, the programs were developed at a specific “macroeconomic moment,” when macroeconomic vulnerability created not just a need for borrowing, but also an understanding of the need for reform. Third, delays in meeting specific conditions generally reflected a more realistic time frame for program implementation, but did not detract from the direction of reform. The only program rated as unsuccessful also contained a major lesson, namely that programs designed around formal rules and conditionalities need to take account of informal policy reform mechanisms, and of the incentive structure for those expected to implement the reforms.

20. A number of other important lessons from ADB’s initial lending and nonlending operations in Afghanistan are also relevant in this context. First, the strategic focus of ADB operations has to be closely linked to the Government’s own strategies and priorities. Second, continued emphasis has to be given to capacity building and planning, program design and implementation, administration, and financial management in light of the pervasive institutional weaknesses. Third, to the extent possible, external funds should be channeled through the formal budgetary process so that resources made available by the international community can be appropriately accounted for and linked to priority government programs. Finally, aid coordination is extremely important for avoiding duplication and implementation delays.

#### **4. Agriculture in Afghanistan**

##### **a. Crop and Livestock Production**

21. The arable agricultural resource base of about 7.5 million ha is divided into rainfed and irrigated land. The rainfed area, which is located largely in the northern provinces and dominated by cereal production, is estimated at 4 million ha. However, the area actually cultivated in a given year varies considerably depending on various factors, such as precipitation and the area left fallow. The recent succession of drought years reduced the cultivated rainfed area to less than 0.5 million ha per annum, before increasing significantly in the past 2 years as a result of favorable rains. Rainfed cereal productivity levels were very low during the recent drought years, averaging only about 0.6 tons per ha, and rainfed cereal production fell to about 10% of expected production in a normal rainfall year. Recovery strategies for these areas must be predicated on the assumption of highly variable rainfall and risk mitigation. In particular, farmers must be able to respond quickly and in a cost-effective manner to changes in weather conditions.

22. Considerable potential exists for productivity improvements even allowing for the low and variable rainfall regime. The International Center for Agricultural Research in Dry Areas has developed and promoted drought-tolerant varieties and cultural practices for cereals, legumes, and forage crops that could double current yields and significantly increase returns. With adoption of appropriate micro watershed management and micro water harvesting techniques, there is thus potential for further yield increases. The potential to improve rainfed farming could play an important role in the revival of the agriculture sector and could facilitate faster poverty reduction. In the longer term, the possibility that Afghanistan could produce 1.5–2.0 million mt of cereals annually from its rainfed farming areas would have the potential to transform its agricultural development. Food security concerns could be relegated to very specific marginal areas, and costly irrigation water could be used primarily for the production of horticultural and other high-value crops. A further advantage of this approach is that it is based on the careful management of micro watersheds, which means that communities will be drawn into an integrated approach to natural resource use. This is the traditional Afghan approach that has largely broken down over the past 25 years.

23. Livestock activities, which have long been an integral part of traditional farming systems in Afghanistan, are often rural households' only source of cash income. However, the productivity of the subsector has decreased significantly due to declining feed supplies and overgrazing, and to the effects of animal diseases that are not being adequately treated. In addition, much of the irrigated land that formerly supported livestock is now without water. Subsector improvement has also been constrained by traditional user rights and grazing practices and a preoccupation by raisers with livestock numbers rather than productivity. A number of activities could be implemented to improve livestock productivity and restore the subsector to its former status, including increased fodder production, artificial insemination, vaccination and disease control, and animal health and improved support services. These activities would need to be supported within a broader community-based development program.

##### **b. Natural Resource Management**

24. By most assessments, Afghanistan's natural resource base has been severely degraded. The extended drought is commonly cited as the principal cause, together with the protracted conflict. While the conflict has undoubtedly been a significant factor, the impact of the drought should not necessarily result in a degraded environment. Afghanistan has a history of

droughts of varying severity and will continue to experience such difficulties. Traditional coping and mitigation strategies have broken down under growing population pressures, the collapse of the rural economy, and control by local elites. These strategies must be rebuilt within the context of a community development approach and effective natural resource management. In the future, vulnerability to drought must be significantly reduced by incorporating a range of technologies and by strengthening off-farm employment and income-generating activities.

25. The relatively low and variable rainfall regime places a premium on the efficient and sustainable management of Afghanistan's scarce water resources. There is considerable scope at present to make water use planning and management more efficient. For example, only 15% of runoff contributes to aquifer recharge, and irrigation system efficiency levels are only about 25% when a level of 40% could easily be achieved. There are many options to improve system efficiency, including transferring operation and maintenance as well as management to water users and making the river basin (or sub-basin) the basic unit for planning and management. In addition, there is scope to expand the irrigated area. The FAO has estimated long-term water availability at about 2,800 cubic meters per head per year, which is enough water to irrigate 4 million ha, a significant increase over the current command area of 2.6 million ha.

### **c. Sector Institutions**

26. The first two years since the fall of the Taliban regime have seen a remarkable reestablishment of basic central government functions, reflecting the effort and commitment of government personnel and considerable funding agency support. Nonetheless, the three core sector ministries—Ministry of Agriculture and Animal Husbandry (MAAH), Ministry of Irrigation, Water Resources and Environment (MIWRE), and Ministry of Rural Rehabilitation and Development (MRRD)—presently have limited capacity to provide efficient or cost-effective support services for agriculture and sustainable natural resource management in the more decentralized institutional environment envisaged in the NDF. It is therefore necessary to review the mandates of these ministries and to formulate a more holistic view of their role in promoting agricultural development and sustainable use of natural resources. In addition, the current composition of the core sector ministries, their detailed functions and organizational structures, and their human resource base all need to be carefully reviewed against the new development priorities for the sector.

27. More generally, Afghanistan's civil service was seriously degraded as a result of the many years of political upheaval and armed conflict. Some of the key challenges facing the civil service include: (i) very low salary levels; (ii) pervasive patronage; (iii) lack of biographical information on the estimated 250,000 strong public sector cadre; (iv) inappropriate pay arrangements, including discretionary salary top-ups; and (v) a dearth of managerial, technical, and administrative skills. In addition, there are structural and organizational problems within the Government that make it difficult to deliver its core functions. For the Government to deliver results and to be held accountable to the people of Afghanistan, there is an urgent need to build self-confidence, capability, and capacity within the civil service.

28. Public administration reform is being undertaken under the strategic framework of the Public Administration Reform and Economic Management program<sup>7</sup> as described in the March 2003 NDB. The Administrative Reforms and Civil Service Commission (ARCSC) is the

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<sup>7</sup> The Public Administration Reform and Economic Management program aims to create an effective central Government that reestablishes national unity on the basis of strong institutions.

institution with central responsibility for directing and coordinating the public administration reform program. The immediate priorities of the public administration reform program are informed by three decrees prepared by the ARCSC and passed recently by the Government. The first decree is concerned with the functions of the ARCSC; the second decree is about priority reform and restructuring within the ministries and the introduction of an interim pay scale; and the third decree sets out the framework for externally funded allowances and secondments. Unless implementation takes place quickly and effectively, there is a significant risk that the investments that have been made to improve basic services and create an enabling environment for peace and security will be unsustainable.<sup>8</sup>

#### **d. Land Ownership and Tenure**

29. Although the vast majority of Afghans depend on agriculture for their livelihood, a significant proportion of the rural population are either landless or farm plots too small to derive subsistence. A large part of the rural population therefore engages in agricultural activity as sharecroppers, laborers, or tenants. Another striking feature of land tenure in Afghanistan is the high degree of uncertainty in land ownership, primarily in sharecropping and the closely related practice of land mortgaging. This involves a number of complex relationships in which it is difficult to distinguish creditors/debtors from owners/sharecroppers, or to identify the legal or accepted right-holder over the property. Nevertheless, there is a long history of land ownership record-keeping in Afghanistan, dating back to land grants issued in the 1880s with documents relating to land transfer according to customary, religious/civil, and state legal precepts. This historical tradition provides a basis on which a national land registry could be constructed.

30. No clear regime for managing land rights exists and by default many management functions have fallen to the courts, which also handle the bulk of land disputes. With instability and coercion by warlords over the past decade, land rights management and dispute resolution have lost credibility in many areas. Most rural Afghans regulate their land ownership relations customarily, without using officials or courts. Customary management offers a strong foundation, but strongly favors wealthier elites, men, and dominant ethnic groups. Land rights are also governed by more than one legal regime, including customary law, civil law, Islamic law, and state law. While important differences exist, there is also an unusual degree of commonality among these in their treatment of land rights. Nonetheless, a key challenge will be to develop a sound and widely accepted legal basis for land rights management.

31. While policy intentions have been discernible both through the terms of state law and, more generally, in the tenure-related strategies that have been adopted over the years, no formal land policy has ever been proclaimed in Afghanistan. This gap has resulted in a deeply unequal and often unjust system of land-ownership relations among tribes, between agricultural and pastoral systems, and among feudally arranged segments of society. These problems have been compounded by violence, insecurity, anarchy, and land grabbing. While effective implementation might still be years away given the security situation in the countryside, it is nevertheless essential that the Government begin formulating a more explicit and comprehensive strategy and policy to tackle land ownership and tenure issues. In devising such a strategy and policy, due consideration must be given to equity and achieving a fair distribution of arable land, given the importance of farming to rural livelihoods and income generation. It will

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<sup>8</sup> ADB is assisting in this regard through the TA for Support for Public Administration Reform Program, approved in December 2003 in the amount of \$3.4 million.

also be important that the land rights, interests, and needs of rural women be given special attention in this process.

#### **e. Sector Support Services**

32. The Agricultural Research and Technology Transfer System (ARTTS) in Afghanistan no longer effectively functions as a result of the widespread destruction of physical infrastructure and loss of skilled human resources, and will therefore have to be rebuilt from the ground up. In doing so, the ARTTS will need to be reoriented away from basic research to adaptive research and technology transfer directly related to agricultural development. Internationally, a wealth of new technologies has been developed for dryland areas and the role of the new ARTTS system will be to test, adapt, and disseminate technologies suitable to local conditions. Stronger extension support will also be necessary to develop horticultural crops in irrigated areas. Institutional and policy changes will be required to support enhanced contributions from research and technology transfer to agricultural development. The human resources base will in turn need to be reoriented and strengthened in line with this new orientation of the ARTTS.

33. The input supply and delivery system needs to be strengthened across the board for seeds, fertilizer, chemicals, and animal vaccines and medicines. In particular, seed production, multiplication, and distribution will have to be fully commercialized with state-run farms producing and testing foundation seeds. Lessons can be drawn from the FAO's activities related to seed production and certification. Fertilizer production, procurement, and distribution should also be left exclusively to the private sector, but subject to government regulatory mechanisms, which will need to be put in place. While the supply chain would be consolidated and improved by turning these functions over to the private sector, there is still a need for the Government to introduce input certification and quality assurance systems, and to continue producing foundation seeds.

34. While improved inputs are becoming more widely available, many farmers currently lack the resources to purchase them, especially those who have been displaced by the conflict and are now returning to their homes or have suffered from the prolonged drought. Unfortunately, without a functioning rural credit system, only those farmers who have access to the rural credit programs of NGOs or to informal credit sources (family members, money lenders, or *hawala* traders) will be able to purchase the inputs they need. While several microfinance programs are currently in operation, it is estimated that they cover only around 10,000 clients (representing less than 1% market penetration), though their scope is expanding rapidly under the Microfinance Investment and Support Facility for Afghanistan (MISFA) initiative. The Agriculture Development Bank provided formal finance for farm inputs, machinery, irrigation improvement, and a range of agribusiness activities, but has been largely dormant for more than a decade. In the intervening period, there has been a significant change in approach, operating modalities, and international best practice for rural financial institutions. Moreover, the Agriculture Development Bank does not qualify for a banking license under the new banking legislation and, on this basis, has been dissolved. While the remaining commercial banks will cover part of the gap that has been created, further assessment studies are necessary to identify viable options to meet the full spectrum of rural credit needs.

#### **f. Trade and Investment Regime**

35. Afghanistan faces significant challenges in developing its trade and investment regime. Twenty-five years of civil conflict and war have caused the country to become isolated from international markets and foreign investors. In the early 1970s, Afghanistan was the world's

largest exporter of raisins and was a significant exporter of other high-value agricultural products such as almonds, pistachios, animal products, and handicrafts (especially carpets). In 1975, Afghanistan's domestic exports amounted to \$226 million, representing 13% of GDP. In 2002, domestic exports (i.e., excluding opium and transit trade) had fallen to just \$130 million, representing less than 5% of GDP.

36. The Government has inherited a set of laws, regulations, and procedures that tend to inhibit rather than encourage trade and foreign investment. Businesses must comply with onerous, costly, and arbitrary procedures that are often unclear to obtain trade and investment licenses. The approach of government and quasi-government departments and corporations emphasizes control and regulation, rather than promotion, facilitation, and investment. In addition to having lost contact with markets and customers in Europe and North America, Afghanistan's trade and investment institutions have lost most of their skilled and trained people to the conflict or through emigration. Access to formal trade and investment finance is almost nonexistent, while basic telecommunications infrastructure still needs to be installed in many areas of the country.

37. Private investment, both domestic and foreign, is essential to rebuilding Afghanistan's agricultural export capacity. Efforts aimed at export development must focus on rebuilding the country's productive capacity by stimulating flows of capital and technology and facilitating market access. Afghanistan must therefore (i) reorient its trade and investment approach from one of regulation and control to one of promotion and facilitation; (ii) reform the current licensing and regulatory regime pertaining to exports and investment; and (iii) build the human resources and skills needed for the relevant government agencies to support, facilitate, and promote trade and investment. A careful review of the entire trade, investment licensing, and regulatory regime is therefore necessary, and all investment and trade regulations and procedures that do not serve a compelling national interest related to public health and safety, environmental protection, sustainable use of natural resources, or national security should be abolished. At the same time, efforts must be made to improve quality assurance and certification systems so that agricultural produce from Afghanistan will meet international standards.

#### **g. State-Owned Enterprises**

38. The restructuring—through either partial/total divestiture, commercialization, or closure—of the extensive network of state-owned enterprises (SOE) is a critical element of Afghanistan's transformation to a market economy. Such a reform would eliminate the burden placed on the budget to support these enterprises,<sup>9</sup> restore a level playing field between these enterprises and potential private sector competitors, and reduce the scope for corruption. Preliminary data suggest that public enterprises, many of which are currently not operational, account for about 70,000 employees. A number of these are in agro-based industries, including 27 enterprises ranging from textiles to meat processing under the Ministry of Light Industries and Foodstuffs (MLIFS), the Improved Seed Enterprise and Fertilizer Trading Company under MAAH, and the Helmand Valley Construction Company under MIWRE.<sup>10</sup> Very little information is available on these enterprises, but few seem to be viable and should be closed or sold to private investors.

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<sup>9</sup> About \$52 million was appropriated in the 2003/04 ordinary budget to fund SOE operations, primarily to cover salary payments of moribund enterprises.

<sup>10</sup> The Helmand Valley Construction Company was heavily involved in water resource projects, particularly irrigation infrastructure development in the southern part of the country.

Indeed, most SOE employees are being paid directly out of the ordinary budget, rather than enterprise revenues.

#### **IV. THE PROPOSED PROGRAM**

##### **A. Objectives and Scope**

39. The program goal is to promote agricultural growth and poverty reduction through support for market-based policy reforms, formulation of public infrastructure investment programs, and institutional reform and organizational capacity building. The program purpose is to enhance opportunities for sector revival by addressing key policy, institutional, and organizational constraints to the efficient and effective functioning of agriculture and the sustainable use of natural resources. As such, the Program will support the national objective of ending Afghanistan's dependence on food aid and accelerating the recovery of the broader national economy. The program framework is in Appendix 4.

40. The Program supports achievement of NDF objectives and is consistent with the operational thrusts of ADB's Country Strategy and Program Update for Afghanistan (2003–2005).<sup>11</sup> The Program includes specific reform measures to (i) develop a sound policy framework and establish efficient sector institutions, (ii) introduce management systems for sustainable use of natural resources, (iii) formulate sound programs for sector investment, (iv) improve the efficiency of sector support services, (v) improve the efficiency of agricultural commodity markets, and (vi) restructure SOEs. The Program will also promote greater market integration and strengthen intersectoral linkages, which will generate new employment opportunities for the rural landless, refugees, and ex-combatants. In addition, the Program will reinforce the pro-poor benefits of the Postconflict Multisector Program Loan (PMPL) and the Emergency Infrastructure Reconstruction and Rehabilitation Project, which are aimed at improving governance and the efficiency of the energy, transport, and financial sectors, and rehabilitating basic infrastructure, respectively.

41. The proposed Program was formulated through intensive dialogue with the concerned government ministries and the active participation of other stakeholders (e.g., key NGOs) and development partners, in a process that began in early 2002 with ADB's lead role in the CNA exercise. This dialogue was continued in the context of the consultative group for the sector and in the recently completed "recosting" exercise, which also helped to foster wide support of the proposed Program by other funding agencies. Given the starting point of the Program, expectations of the progress that can be achieved during the next 18 months will need to be realistic. In many reform areas, the Program seeks to initiate action by setting out a vision and way forward by defining strategies and action plans; in other areas, the Program seeks to carry forward work that has already begun and where the objectives are more ambitious. The proposed reform measures are described in more detail below, and are also set out in the attached development policy letter and policy matrix (Appendix 5).

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<sup>11</sup> The CSPU was approved in June 2003 and takes into account the Government's request that all funding agencies focus assistance on three sectors to minimize overlap and duplication of effort and improve the efficiency and effectiveness of their assistance. It was agreed in this context that the ADB would provide loan and TA assistance to the transport sector (i.e., roads and civil aviation), energy sector (i.e., power, petroleum, and gas), and natural resource management sector (i.e., agriculture, irrigation, and environment), as well as TA assistance for governance and finance.

42. The adjustment costs of the policy, institutional, and organizational reforms agreed upon in the context of the Program are expected to be much larger than the loan amount (see paras. 58-60). It is expected that the reform activities will prompt both Government and the private sector to invest in the targeted subsectors. It is also recognized that both the policy reforms and institutional reforms under the Program will have a distinctly developmental impact, and involve the dismantling and reform of existing underperforming or moribund institutions, while at the same time developing new institutional and organizational arrangements to guide future sector development. The incremental benefits that will be generated under the Program will therefore take time to materialize, but are expected to eventually offset the adjustment and other costs associated with program implementation.

## **B. Policy Framework and Actions**

### **1. Sector Policy Framework and Institutions**

43. In order to develop a sound policy and institutional framework, the core sector ministries—MAAH, MIWRE, and MRRD—have forged a common vision for the development of the sector. Accordingly, a key action under this component has involved the preparation of a joint agriculture and natural resource management strategy and policy framework outlining the key priorities, strategies, and policies for reviving agricultural growth and promoting sustainable use of natural resources. The framework is based on Pillar 2 of the NDF, and has drawn upon ongoing policy and strategy work in the sector, particularly the technical annex on natural resource management in “Securing Afghanistan’s Future.” The framework clarifies the respective roles of the public and private sector in the sector development process as well as the specific functions and responsibilities to be carried out by each of the three ministries. The strategy and policy statement will be followed by a time-bound action plan setting out key milestones in the implementation of the sector framework.

44. The Public Administration Reform and Economic Management program in the NDB issued in March 2003 provides the strategic framework for public administration reform in Afghanistan. Included in this agenda is the restructuring of the core sector ministries so that they are better placed to deliver their core public function to provide agricultural support services and natural resource management. The three sector ministries have already obtained approval from the ARCSC of their stage 1 Priority Reforms and Restructuring (PRR) applications for key departments. This has been followed by preparation of time-bound implementation plans that set out clearly their objectives, organization structure, staffing levels, lines of accountability, and restructured functions in order to secure stage 2 approval of their PRR proposals.

45. The Program seeks to build on the institutional reform and restructuring of the core sector ministries in a number of other areas. MAAH, MIWRE, and MRRD will complete studies assessing their human resources training needs, including in their field offices, and develop time-bound action plans for capacity building to address the identified needs. In order to improve fiscal management and transparency, the three concerned ministries have prepared and submitted recurrent and development budgets for SY1383 and will work to ensure that future budget submissions are in line with their reform and restructuring objectives. The Program also seeks to make a beginning on strengthening the relevant ministries’ field offices through preparation of time-bound action plans followed by their implementation in selected areas. Further, the Program calls upon the Government to allocate the necessary budgetary resources to ensure effective operation of the sector ministries’ field offices. Finally, ARCSC will examine the possibility of consolidating the sector ministries and reducing the number of their



departments. A plan in this regard will be submitted to Cabinet for its consideration in the coming year.

## **2. Natural Resource Management**

46. Beyond the overarching policy framework and reform of sector institutions, activities will be undertaken to improve natural resource management and planning in key areas. An important area of focus will be on water resources, which are most critical to the revival of agricultural productivity and growth. As such, developing a long-term strategy to manage water resources and reduce vulnerability to drought will be vital. An initial activity is for MIWRE to carry forward work that has already begun on a comprehensive water resource assessment, including establishment of a water resource database and hydrological network, which will support the formulation and adoption of a coherent water policy and subsequent legislative reform. By the end of the program period, an interim water policy will have been drafted and endorsed by the Cabinet, which in turn will provide a basis for reforming the 1981 Water Law. In line with international best practice, studies have also been initiated on the development of river basin organizations, which are expected to result in the establishment of at least two such organizations on a pilot basis during the program period. MIWRE has also agreed to adopt community-based operation and maintenance as well as system management as a guiding principle in formulating and implementing its irrigation development program. Finally, MIWRE will prepare a strategy for groundwater development and management, which could serve as an important safeguard during times of drought.

47. Actions will also be taken to improve management of livestock and forestry and rangeland resources, and to create a legal framework for environmental protection and control. The critical issues to be addressed in regard to livestock, which have been an integral part of traditional farming systems for centuries, include decimation of herds by drought and disease. MAAH has compiled a livestock inventory and database as a first step toward the development of a resource planning and monitoring system. An assessment study that will provide the basis for the formulation of a livestock development strategy to address the multifaceted issues facing the subsector has also been initiated. Similarly, a forest and rangeland resource inventory and assessment study has also been initiated, which will provide the basis for developing a comprehensive policy on forest and rangeland management. A draft policy will be completed and submitted to Cabinet and a public consultation process initiated in parallel in the coming year. Finally, ongoing work to develop environmental protection legislation will be carried forward under the Program. In this connection, MIWRE has prepared an initial draft of an Environmental Protection Act (EPA) that is expected to be finalized in the coming months. The draft legislation will then be submitted to Cabinet for its approval before year end.

48. Work will also be initiated under the Program to develop a comprehensive national land policy and titling system through which land-use efficiency and equity will be improved. The Government has expressed its commitment to creating a policy and institutional framework for land administration that is fair, efficient, and sustainable. As such, the system will seek to (i) increase tenure security for farmers and other landholders, (ii) facilitate efficient land transactions and administration, and (iii) provide farmers and other landholders with greater control over land management through a full range of market choices. To this end, a high-level commission has been appointed that is initiating work toward formulation of a comprehensive land policy that seeks to encourage private investment and protects the rights of the poor. A draft policy will be submitted to the Cabinet and a public consultation process initiated on the policy by the end of the program period. An interministerial working group comprising the key government agencies has also initiated studies on the institutional framework for a land titling

system and the requirements for a land database. This will be followed by the development of appropriate strategies and time-bound action plans.

### **3. Sector Investment Program**

49. The recently completed “recosting” exercise estimated that \$800 million will be required for the agriculture and natural resource management sector over the next three years and another \$1.5 billion during the ensuing four years (2007-2010). In order to achieve these objectives, the Government will have to strengthen the process for preparing sector investment programs. Efforts under the Program are focused in particular on the water resource sector, upon which future increases in agricultural productivity will primarily depend. The outputs of the irrigation system inventory and ongoing comprehensive water resource assessment will be critical inputs to the process of identifying economically viable irrigation projects. Particular attention will be paid to developing programs for rehabilitation of traditional medium and large irrigation schemes. MIWRE is developing selection criteria that reflect land ownership and titling considerations as well as an equitable distribution of benefits along gender lines. MIWRE is also developing screening procedures to ensure that the investment program is consistent with the environmental and social safeguard policies of the multilateral financial institutions involved.<sup>12</sup> It has also been agreed that MIWRE will develop procedures for the transfer of ownership and management of irrigation facilities to water users.

50. The future of agriculture in Afghanistan depends on enterprise diversification and greater commercialization. This will require the promotion of high-value crops and livestock enterprises, for which adoption will need effective regulatory frameworks, efficient marketing systems, and very active participation of the private sector. This is important not only to raise farm incomes and reduce rural poverty, but also to provide an important alternative to the resurgence of opium production. While enforcement efforts will have to become more effective, efforts to identify investment opportunities in high-value cash crops and agro-based industries as alternatives to poppy cultivation must also be stepped up. Against this background, MAAH, MLIFS, and the Ministry of Commerce (MOC) are conducting studies on the options available to facilitate greater commercialization of agriculture, particularly through the development of high-value horticultural crops. This includes reviews of the enabling environment for private sector participation in agricultural activities as well as agronomic and financial assessments of promising alternative crops. Strategies and time-bound action plans to increase private sector investment and develop livelihood alternatives to poppy cultivation will be developed based on the outputs from these studies.

### **4. Sector Support Services**

51. The national ARTTS is largely nonfunctional after two decades of civil conflict and the present institutional structure is not well suited to future sector needs and priorities. While Afghan farmers are generally aware of the benefits of modern agro-inputs, the present input delivery system lacks effective quality assurance and certification systems, as well as a regulatory framework to ensure delivery of quality agricultural inputs. Effective quality assurance and certification systems are also lacking on the outputs side, but must be developed if agricultural exports from Afghanistan are to gain entry to overseas markets. To address these

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<sup>12</sup> Assistance is being provided in this regard by advisors engaged under the Technical Assistance Cluster (TAC) to the Republic of Afghanistan for Capacity Building and Reconstruction and Development, approved in May 2002 in the amount of \$14.5 million.

constraints, MAAH is carrying out studies on input and output certification and quality assurance systems, the institutional requirements for a regulatory framework for agricultural inputs and outputs, and the options for establishing an efficient and cost-effective ARTTS. Recommendations and time-bound implementation plans will be developed based on the results of these studies. MAAH has also initiated preparation of a modern seed law, and will develop a strategy and time-bound action plan for establishing a national seed bank in order to preserve the indigenous gene pool.

52. Developing a viable and effective rural financial system is also crucial to the revival of agricultural growth. Access to short-term finance in particular will be key if farmers are to afford quality seeds and fertilizer. Currently, the only financial services being provided in rural areas are through moneylenders, *hawala* traders, and various microcredit schemes launched by NGOs and under the MISFA initiative. These presently have limited coverage and do not meet the full spectrum of rural credit needs. The Program will seek to identify viable options to fill this institutional gap through a rural finance assessment to meet the full spectrum of rural credit needs. The Ministry of Finance (MOF), in association with DAB and MRRD, have initiated assessment studies, and will develop time-bound action plans to implement the recommendations that emerge from the studies. Gender-specific constraints to accessing credit will also be addressed in developing these plans.

## **5. Agricultural Commodity Markets**

53. Efficient agricultural commodity markets are another essential precondition for the development of a competitive, export-oriented agricultural sector. The Government has indicated its firm commitment under the Program to removing all impediments that inhibit market efficiency, particularly restrictions on internal and external movement of agricultural commodities (including inputs), except those related to standard tariffs, phytosanitary conditions, environmental protection and control, and drug trafficking; and both formal and informal restrictions on private sector participation in agricultural activities, including production, processing, marketing, exports, imports and distribution. MOF, MOC and other relevant government agencies will prepare time-bound action plans to remove any existing impediments on the movement of agricultural commodities or private sector participation in agricultural activities. The Government has also explicitly stated that it would refrain from introducing any explicit subsidies or price supports on agricultural commodities.

54. Much of the agricultural production in Afghanistan takes place in areas that are relatively inaccessible and remote from market outlets and the input supply chain. In particular, the network of farm-to-market roads and agricultural marketing infrastructure has been badly degraded by 25 years of civil conflict and war. The isolation of farming communities raises production costs and perpetuates rural poverty. MAAH has therefore initiated studies with a view to identifying options to improve integration of agricultural markets, including the strengthening of farm-to-market linkages. Once these studies are completed, a strategy and time-bound action plan will be prepared to implement the recommended options. In the meantime, the Government is also proceeding to implement a reconstruction program for farm-to-market roads and storage facilities.

## **6. State-Owned Enterprises**

55. In line with the policy enunciated in the NDF, the Program seeks to carry forward the Government's commitment to SOE restructuring, including divestment of its ownership stake in some enterprises. Accordingly, an inventory of SOEs has been published and time-bound

restructuring plans will be prepared as follow through on the expressed commitments in this regard. The Government will also develop a strategy and procedures for restructuring of its SOEs, which will include provisions for market valuations of assets to ensure that the process is transparent and fair, maximizes returns to the Government, and facilitates active private sector participation. The Government has moved ahead to dissolve the Agriculture Development Bank and has initiated divestiture of the Fertilizer Trading Company. Further, restructuring of the Improved Seed Enterprise and Helmand Valley Construction Company, aimed at commercialization of their operations and establishment of independent private sector management teams, has also been initiated.

### **C. Important Features**

56. A key feature of the proposed Program is the high degree of domestic ownership of the policy reform agenda. Extensive consultation was carried out with Government counterparts in all the relevant ministries and maximum effort was made to reflect the special circumstances of Afghanistan so as to ensure a practical and realistic reform program. Consultation with other development partners has also been extensive, and will help to ensure that TA efforts and financial support to meet adjustment costs and investment needs in the sector are well coordinated (Appendix 6). A separate consultation with key NGOs was also conducted to harmonize understandings on the critical issues confronting agricultural development and natural resource management in Afghanistan. The discussions with the NGO community provided an important validation of the scope and content of the reform program, given its long and extensive experience in implementing rural development activities throughout the country.

57. Another important feature of the Program is its flexibility in terms of the range of outcomes that would be acceptable to achieve compliance with the tranche release conditions. The policy agenda is deliberately designed to be more flexible and adaptable than is typical for program loans, but without impacting on its rigor. In each selected area of focus, the agreed conditionality signals strong government commitment to seek fundamental reform of the sector. Besides reflecting Afghanistan's extremely difficult circumstances, including significant security concerns outside Kabul, this formulation draws from ADB's overall experience with agriculture sector programs and sector development programs as reported by the Operations Evaluation Department (paras. 18-20). In particular, overly ambitious programs with numerous conditionalities have tended to result in disappointing performance in terms of implementing reforms. Finally, in view of the approaching election later this year, the selection of second tranche conditions has focused on activities that are less likely to be derailed in the event of a change of government.

### **D. Financing Plan**

58. The Government has requested a loan of Special Drawing Rights 37,581,000 (\$55 million equivalent) from ADB's Special Funds Resources to support the proposed Program. The loan amount was determined on the basis of the adjustment and related costs of the proposed policy and institutional reforms, taking into account that some of these costs are indirect (i.e., imposed through market forces) and will not directly give rise to government outlays. The likelihood that other forms of financial assistance could materialize during the program period was also taken into consideration in determining the loan amount. Four main adjustment cost elements are considered: (i) costs of compliance with the new legal and regulatory systems and standards, (ii) costs of capacity building, (iii) costs of enforcement, and (iv) costs of price adjustments. Adjustment costs cover technical expert input, administrative

support, training, compensation, building and equipment associated with compliance, capacity building, and enforcement.

59. The major cost elements under the reforms of the agriculture and natural resource management sector are those associated with (i) developing the framework for economically viable and competitive activities, and sustainable use of natural resources, (ii) establishing the hydrological network and pilot river basin organizations, (iii) establishing efficient and effective sector institutions through undertaking institutional reform and reorganization, and capacity building, including compensation to retrenched staff, (iv) undertaking feasibility and preparatory studies to formulate a sector investment program, (v) improving efficiency in input and output support service delivery, and in production systems, and (vi) restructuring SOEs, including compensation to retrenched staff. These and related costs are estimated to be at least \$94 million, consisting of the following major cost categories:

- (i) rehabilitating and restructuring sector ministries (\$42.0 million);
- (ii) strengthening field offices of sector ministries (\$15.7 million);
- (iii) improving natural resource management and planning (\$26.3 million);
- (iv) developing an irrigation investment program (\$1.3 million);
- (v) establishing an input and output certification and quality assurance system (\$1.1 million); and
- (vi) restructuring agricultural SOEs (\$3.3 million).

60. The particular nature of the program lending modality makes it difficult to directly link the utilization of loan proceeds during the program period with the specific adjustment costs noted above. Many of these costs will only arise over the longer term and it is expected that the Government's fiscal capacity will strengthen to enable it to meet the remaining financial commitments without any difficulty. In addition, other funding agency sources have been identified to finance a portion of the costs. For example, roughly \$20 million of the costs relating to natural resource management and planning is expected to be financed through other funding agency interventions, including some ADB-financed activities.<sup>13</sup> Moreover, implementation of the Program's reform agenda will give rise to a range of benefits (see paras. 82-83) that over time are expected to significantly outweigh the costs. Further details of the adjustment costs are in Appendix 7 and Supplementary Appendix A.

61. In view of the exceptionally difficult postconflict circumstances that continue to prevail in Afghanistan, the Government has requested the softer Asian Development Fund terms (see the development policy letter in Appendix 5) provided under the previous two loans from ADB to Afghanistan. It is therefore recommended that the loan have a repayment period of 40 years, including a grace period of 10 years; and carry an interest rate of 1% per year, with a repayment of principal at 2% a year for the first 10 years after the grace period and 4% per year thereafter. The interest charge during the grace period will be capitalized and charged to the loan account. These terms and conditions will raise the grant element to be comparable to International Development Association terms. The loan proceeds will be available for disbursement in two tranches, upon satisfactory compliance with agreed-upon conditions from the date of loan effectiveness until 30 September 2005.

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<sup>13</sup> This includes the irrigation component of the Emergency Infrastructure Reconstruction and Rehabilitation Project and the proposed Irrigated Agriculture Development Project as well as some World Bank-financed activities.

## **E. Implementation Arrangements**

### **1. Program Management**

62. MOF will be the Executing Agency (EA) for the Program and will be responsible for disbursing the loan proceeds, maintaining program records, and ensuring compliance with all policy-related conditions. MOF has appointed a program coordinator and assigned appropriate staff to assist in coordinating, monitoring, and supervising program activities. The program management arrangements will be similar to those adopted under the PMPL, which proved to be very effective in facilitating timely fulfillment of the second tranche conditions.

63. MOF, MAAH, MIWRE, MRRD, MLIFS, MOC, DAB, and ARCSC will be the implementing agencies (IAs). MOF and the IAs will assume responsibility for implementing all conditions and program components within their regulatory and development mandates. Each IA will appoint a programs officer, who will liaise with the program coordinator on policy decisions concerning the Program. MOF and the IAs will also liaise closely with the activities of ADB-funded advisors already working in the concerned ministries and departments under the ongoing TAC for capacity building as well as the consultants to be engaged under the piggybacked TA (paras. 74-81).

64. In addition, a national steering committee chaired by the Minister of Finance has been established to provide program oversight. Committee members will be deputy ministers from the concerned ministries and one of the deputy governors from DAB. MAAH will serve as the committee's secretariat. The steering committee will meet at least quarterly to review program implementation and to resolve interministerial and other issues. The Program will be implemented in close coordination with other aid agencies to avoid duplication of TA efforts and to enhance the impact of the reform measures.

### **2. Implementation Period**

65. The Program will be implemented over a period of 18 months, starting from the date of loan effectiveness. The loan will be released in two tranches upon satisfactory compliance with agreed conditions from the date of loan effectiveness up to 30 September 2005. The loan closing date is 30 April 2014.<sup>14</sup>

### **3. Procurement and Disbursement**

66. The loan proceeds will be used to finance the foreign exchange costs of items produced and procured in ADB member countries, other than items specified in the negative list and imports financed by other bilateral and multilateral sources (Appendix 8). In accordance with the simplified disbursement procedures and related requirements for program loans,<sup>15</sup> goods and services produced and originating in ADB member countries will be procured, with due consideration of economy and efficiency, in accordance with standard public procedures in Afghanistan, and normal private sector commercial practices, acceptable to ADB.

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<sup>14</sup> The loan needs to remain open until this date to ensure that the interest charge to be paid during the grace period can be withdrawn from the Loan Account by ADB on behalf of the Borrower.

<sup>15</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

67. With each withdrawal request, the Borrower will be required to submit a certification confirming compliance with the following formula: for each year in which the proceeds of the loan are expected to be disbursed, the annual withdrawal request is less than the value of the country's total imports minus (i) imports from nonmember countries, (ii) ineligible imports, and (iii) imports financed by other official development assistance. ADB will have the right to audit the use of the loan proceeds and to verify the accuracy of the Borrower's certification. Loan proceeds may be used to finance eligible imports for which expenditures were incurred 180 days before the loan becomes effective.

#### **4. Consulting Services**

68. No consulting services will be directly provided under the loan. However, TA will be piggybacked to the Program to monitoring and implementation of the second tranche conditions, and is described in paras. 74-81. The consultants engaged under this TA, together with other ADB-financed and externally provided consultants, will also support the IAs in program monitoring and securing compliance with the second tranche conditions.

#### **5. Counterpart Funds**

69. The Government anticipates the local currency counterpart funds generated by the loan will be mainly used to meet the adjustment costs arising from the policy and institutional reforms supported by the Program, and for general sector budgetary support. Further, it is expected that investments in irrigation development and in other rural infrastructure will be undertaken under other projects and programs supported by ADB and other development partners.

#### **6. Monitoring and Tranching**

70. The loan will be released in two tranches upon satisfactory compliance with the agreed-upon conditions. The first tranche, equivalent to \$30 million, will be made available upon loan effectiveness. The second tranche of \$25 million equivalent is expected to be made available about 12 months later upon satisfactory compliance with the agreed-upon conditions, as well as continued compliance with all first tranche conditions.<sup>16</sup> The conditions for release of the first and second tranches are as follows:

##### **(i) Conditions for First Tranche Release**

##### **(a) Sector Policy Framework and Institutions**

- (i) Prepare a joint statement outlining key priorities, strategies, and policies for reviving agricultural growth and promoting sustainable use of natural resources.
- (ii) Submit applications for approval of stage 1 of PRR of key departments of MAAH, MIWRE, and MRRD.
- (iii) Submit recurrent and development budgets for SY1383 of MAAH, MIWRE, and MRRD.

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<sup>16</sup> The specific actions required for tranche release are set out in Supplementary Appendix B.

**(b) Natural Resource Management**

- (i) Confirm commitment to develop a comprehensive policy on forestry and rangeland management.
- (ii) Initiate work on the EPA.
- (iii) Appoint high-level commission to prepare comprehensive land policy.

**(c) Agricultural Commodity Markets**

- (i) Confirm intent to remove all restrictions on the movement of agricultural commodities.
- (ii) Confirm intent not to introduce government subsidies or price supports on agricultural products.
- (iii) Confirm intent to remove all restrictions on private sector participation in agricultural activities.

**(d) State-Owned Enterprises**

- (i) Confirm intent to restructure agricultural SOEs.
- (ii) Initiate divestment of the Fertilizer Trading Company.
- (iii) Dissolve the Agricultural Development Bank.
- (iv) Initiate commercialization of the Improved Seed Enterprise and Helmand Valley Construction Company.

**(ii) Conditions for Second Tranche Release****(a) Sector Policy Framework and Institutions**

- (i) Prepare time-bound action plans for implementing the agriculture sector strategy and policy framework.
- (ii) Approve stages 1 and 2 PRR applications for MAAH, MIWRE, and MRRD.
- (iii) Prepare action plan for consolidating agriculture sector ministries and reducing the number of their departments.
- (iv) Submit recurrent and development budgets of MAAH, MIWRE, and MRRD for SY1384 to MOF in line with restructuring plans.

**(b) Natural Resource Management**

- (v) Complete strategy for groundwater development and management.
- (vi) Following public consultation, initiate reform of the 1981 Water Law based on the interim water policy.
- (vii) Submit to Cabinet a draft forest and rangeland management policy and initiate public consultation.
- (viii) Approve the EPA.
- (ix) Submit draft land policy to the Cabinet and initiate public consultation.



**(c) Agricultural Commodity Markets**

- (i) Submit time-bound action plans for removal of restrictions on the movement of agricultural commodities.
- (ii) Maintain policy of no subsidies or price supports on agricultural products.
- (iii) Submit time-bound action plan for liberalization of the agriculture sector including removal of restrictions on private sector participation in agricultural activities.

**(d) State-Owned Enterprises**

- (i) Develop procedures for restructuring and divestment of SOEs.
- (ii) Submit to Cabinet time-bound restructuring plans for agricultural SOEs.
- (iii) Complete divestment of the Fertilizer Trading Company.
- (iv) Complete commercialization of the Improved Seed Enterprise and Helmand Valley Construction Company.

**7. Program Performance Monitoring and Evaluation**

71. The IAs will be responsible for monitoring the progress in implementing program reforms. Monitoring will require close coordination between the IAs and support will be mobilized to rapidly develop information systems at the central, provincial, and local levels. There are, however, serious capacity gaps in skills relating to field surveys, data collection and analysis, management feedback systems, and report writing. In short, the Government's capacity to carry out program impact evaluation is very limited. In view of this, ADB is providing TA to build capacity for poverty assessment and statistical compilation.<sup>17</sup> ADB will also closely monitor the progress of program implementation and the impact of the reforms on the performance of the sector. The Government and ADB will continue to engage in active policy dialogue throughout program implementation, including identification of additional reforms that may be considered necessary or desirable for the sustained development of the sector.

72. MOF, with assistance from the IAs, will provide ADB with quarterly reports on program implementation, in particular the policy actions set out in the development policy letter and policy matrix. The reports will be submitted in such form, detail, and regularity as ADB may reasonably request, and will include information on progress made and problems encountered during the period in review, steps taken or proposed to remedy problems encountered, the proposed detailed activities for program implementation, and the expected progress during the next quarter or period of review. On completion of the Program, but in any event not later than 6 months after program completion, the Government will prepare and furnish ADB with a program completion report on the overall impact of the policy reforms.

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<sup>17</sup> TA for Support for Poverty Assessment and Socioeconomic and Macroeconomic Statistical Capacity Building was approved in December 2003 in the amount of \$1.75 million.

## 8. Program Review

73. ADB will field quarterly program review missions. A midterm review will take place about 6 months after loan inception to evaluate overall progress toward completion of the envisaged actions under the Program, particularly those required for release of the second tranche. In addition, the national steering committee chaired by the Minister of Finance will meet periodically to review progress under the Program. MOF will prepare a summary of the discussions of the steering committee, which will be sent to ADB.

## V. TECHNICAL ASSISTANCE

74. The Program will address basic policy, institutional, and organizational reforms in agriculture and natural resource management. Accordingly, investment and capacity building in these areas will be provided in part by linking program implementation with the activities of ADB-funded advisors already working in the concerned ministries and departments under the ongoing TAC. However, the Government has determined that additional support will be required to effectively implement, sequence, and monitor policy reform actions and has requested ADB TA to (i) help facilitate program coordination and monitoring, (ii) develop a comprehensive land policy and an appropriate institutional framework for land titling, (iii) assess the human resources and capacity-building needs of the core sector ministries, (iv) assess institutional options to meet rural credit needs, (v) improve the efficiency of agricultural commodity markets, and (vi) develop procedures for restructuring and divesting SOEs. Other development partners have indicated that these are the areas where assistance is urgently needed and where ADB assistance would best be targeted. MOF will be the EA for the TA.

### A. Program Coordination

75. To facilitate timely fulfillment of the tranche release conditions, the TA will assist MOF and the core sector ministries to, inter alia, (i) maintain consistency of activities with the Program's objectives of promoting agricultural growth and poverty reduction through support for market-based policy reforms, formulation of public infrastructure investment plans, and institutional and organizational capacity building; (ii) determine the economic and social impacts of the policy reform measures; (iii) review all policy, legal, and institutional aspects for consistency in promoting program objectives; (iv) ensure that the irrigation investment program is formulated with due regard to social and environmental safeguards and gender considerations; (v) devise measures to enhance private sector participation in agricultural research, extension, and education; and (vi) ensure that SOEs are restructured with adequate emphasis on good governance and financial viability. The TA will also assist the MOF and the IAs in developing a program performance monitoring and evaluation system.

### B. Land Policy and Land Titling

76. With the appointment of a high-level commission to oversee preparation of a comprehensive land policy, and the appointment of an interministry working group to initiate studies on an appropriate framework for land titling and administration, the Government has sought assistance to bring international best practice to bear in these areas.<sup>18</sup> Land tenure problems arise in many countries and there is much to be learned from their experiences in

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<sup>18</sup> Parallel cofinancing in the amount of approximately \$0.8 million is also planned from the Department for International Development to support the work of the high-level commission and interministry working group.

reform and institution building. Issues of particular concern to Afghanistan include how customary and statutory land tenure regimes have been integrated; how an inexpensive, decentralized, and sustainable land tenure administration can be established; how appropriate environmental and social safeguards can be incorporated; and the proper role of the state in land administration and land ownership. The TA will also provide support for the design and initiation of a public consultation process for the draft land policy, and the preparation of a timetable and action plan to introduce an appropriate system for land titling and administration (i.e., a system that includes adequate environmental and social safeguards).

### **C. Human Resources Assessment and Capacity Building**

77. The core sector ministries lack detailed information on the numbers and capacities of their human resources. There is no comprehensive database on actual numbers of employees, and no assessment has ever been made of the capacity of the ministries' human resource base. Similarly, training and professional development of staff from the ministries has been nonexistent during the long period of conflict. The Government has in this context requested TA to assist the core sector ministries in developing the relevant databases and making an assessment of their human resources and institutional development needs in view of their new mandates, and to design training and capacity-building programs based on the needs assessment. Large numbers of redundancies will be identified through this process, and assistance will also be necessary for the design of appropriate retrenchment and separation packages.

### **D. Institutional Options for Rural Finance**

78. Development of rural finance is an integral part of the overall development of the financial sector. The TA will assess the most effective institutional options to meet the full spectrum of rural credit needs from among the current pilot projects, through the commercial banking system, and from newly identified programs and projects. This will be followed by assistance with preparing time-bound action plans to implement the desired options. Special attention will be given to assessing the credit needs of women, and to identifying options and subsequently preparing action plans.

### **E. Agricultural Commodity Markets**

79. With the planned removal of formal and informal controls on the movement of agricultural commodities (including inputs) and of impediments to private sector participation in agricultural marketing activities, the Government has requested assistance in establishing an appropriate legislative and regulatory framework for agricultural commodity markets. In this connection, the TA will seek to distill the recommendations of various ongoing diagnostic studies in this regard and define strategies and time-bound action plans. The TA will also provide support for establishing input and output certification and quality assurance systems.

### **F. Restructuring and Divesting State-Owned Enterprises**

80. The Government will need to direct, manage, and sequence the restructuring and divestment of SOEs in a manner that maximizes returns to the state. The TA will provide assistance in developing procedures to facilitate timely and efficient restructuring of SOEs in line with this objective. To ensure that this process is efficient and transparent, provisions will be developed to ensure that assets are valued at market prices and that adequate incentives are

provided for active private sector participation. Social safety net provisions will also need to be developed to address the retrenchment costs of SOE restructuring.

### **G. Cost Estimates and Financing Plan**

81. The total cost of the TA is estimated to be \$1,100,000 equivalent, comprising \$872,000 in foreign exchange cost and \$228,000 in local currency cost. ADB will finance \$1,000,000 to cover the entire foreign exchange cost and \$128,000 equivalent of the local currency cost on a grant basis. The Government will finance in kind the balance of the local currency cost amounting to \$100,000 equivalent. The consultants will be recruited by ADB through a firm in accordance with ADB's *Guidelines on the Use of Consultants*. Selection will be in accordance with quality and cost-based selection methods. An estimated 36 person-months of international consultants will be provided. Any procurement under the TA will be in accordance with ADB's *Guidelines for Procurement*. The TA is expected to begin in July 2004 and will be completed by September 2005. Outline terms of reference and more detailed cost estimates are in Appendix 9.

## **VI. PROGRAM BENEFITS, IMPACTS, AND RISKS**

### **A. Benefits**

82. Through its support for market-based policy reforms, formulation of public investment plans, and institutional reform and organizational capacity building in the core sector ministries, the Program will over the longer term promote accelerated agricultural growth and facilitate greater inroads toward poverty reduction. Employment creation through enhanced on-farm productivity, greater commercialization of agricultural production, promotion of agro-based industry, and greater devolution of agricultural support services, is also expected to be significant. The sustainability of Afghanistan's development process is also expected to be enhanced through better informed and more efficient natural resource management. Specific beneficiaries are expected to include the rural poor, small and marginal farmers, nomadic pastoralists and other livestock herders, returning refugees, internally displaced persons, and demobilized combatants.

83. The following are among the benefits that can therefore be directly or indirectly attributed to the various program components: (i) improved public sector efficiency and effectiveness; (ii) improved efficiency and more sustainable use of natural resources, particularly of water; (iii) improved resource mobilization from domestic sources for rehabilitation and reconstruction; (iv) improved economic management; (v) improved credit delivery in rural areas; (vi) improved efficiency and better integration of agricultural commodity markets; (vii) increased private sector participation; (viii) enhanced institutional efficiency in service delivery; (ix) improved fiscal stability; and (x) a more diversified and profitable agriculture production base.

### **B. Risks**

84. The Program will be implemented in a changing political, institutional, and security environment, and as such will face a number of risks. These include the following:

- (i) Government commitment to the reform process could weaken in the run up to the national elections currently scheduled for September 2004, and a change in government in the wake of these elections might result in a policy shift. While these risks are difficult to mitigate, the Government's performance in pursuing

difficult reforms under the PMPL, in particular the recent passage of the Central Bank Law and Banking Law, indicates a strong commitment to pushing ahead with the structural reform agenda. President Karzai's success in forging a consensus during the recent Constitutional *Loya Jirga* suggest that the Government will continue to move ahead with its reform program in the coming year. In addition, a strong consensus has emerged within the country, including within civil society and the NGO community, on the need for far-reaching reforms in the agriculture sector. Finally, the conditions for second tranche release are focused on activities that are less contentious politically and thus more likely to proceed in the event of a change in government.

- (ii) The security situation remains a concern in light of the recent attacks on aid staff, road construction crews, and the NATO-led International Security Assistance Force (ISAF). However, increased funding has been mobilized to finance reforms in the security sector (including the police, Afghan national army, and the Ministry of Defense). In addition, the mandate of the ISAF was recently expanded to cover areas outside Kabul and it will take on more of a peacekeeping role. These developments are expected to result in an improvement in the security situation throughout the country. In addition, to enable the Government to extend its authority beyond Kabul and to support the reconstruction process, United States and NATO-led efforts are underway to deploy Provincial Reconstruction Teams in 13 outlying locations over the next few months.
- (iii) Weak institutional capacity may also delay implementation of the reform agenda. The ADB's TAC for capacity building, the TA piggybacked to this loan, and other funding agency-assisted TA will provide critical inputs to facilitate timely and effective implementation. In addition, the activities carried forward under the Program themselves, particularly those relating to the strengthening of sector institutions, will help to build institutional capacity.
- (iv) The macroeconomic and budgetary situation may worsen, causing a diversion of funds from meeting the adjustment and other costs associated with the Program's policy and institutional reforms. Afghanistan has entered into a staff-monitored program with the International Monetary Fund (IMF) that should allow the Government to build on its already good track record and establish an adequate level of capacity for a possible future upper credit tranche arrangement with the Fund. Further, revenue mobilization has improved as a result of customs reform and recent steps taken by the provinces to remit funds to the central coffers. It is expected that the Government's capacity to collect revenue and manage its budget will continue to improve through its collaboration with the IMF.
- (v) External assistance could also fall short of what is required. The experience of post-conflict countries shows that assistance typically starts to decline after a few years, just at the moment when the recipient country's capacity to absorb aid and use it effectively is increasing. Afghanistan's reconstruction effort has only just begun and will continue to require sizable assistance for several years to come. Thus far, the commitment of the international community to Afghanistan remains strong. ADB will continue to provide strong leadership in this regard by fulfilling its own financial commitments to Afghanistan.

### C. Impact on Poverty

85. While no poverty assessment has been prepared<sup>19</sup> or poverty partnership agreement signed, the Program directly supports achievement of pillars 2 and 3 of the Government's NDF, which serve as the country's de facto poverty reduction strategy (Appendix 10). Agriculture and other rural-based activities are the main source of income and employment in Afghanistan, providing livelihoods for nearly 85% of the population. By enhancing rural livelihoods and economic efficiency in agriculture, the proposed Program should contribute directly to poverty reduction and lead to an improvement in a range of other social and economic indicators.

86. No systematic study has been done on the factors contributing to poverty in Afghanistan, but available information suggests that poverty is associated with low economic growth and the collapse of income-generating and employment opportunities due to the long period of war and civil conflict. Other factors likely pertain to the distinctive features of the agro-ecological environment (e.g., the frequent droughts), natural resource degradation, land ownership and tenure, loss of livestock and destruction of orchards, access to water and agricultural inputs, availability of off-farm employment opportunities, refugee/displacement status, gender, ethnicity, household status (e.g., with female head or not, educational attainment), and physical disability. The Program seeks to address, either directly or indirectly, a number of these root causes of poverty. In addition, the Program will benefit vulnerable tribal groups, traditional livestock herders, and nomadic pastoralists by supporting development of a policy framework that would provide them with equal access to land resources in accordance with ADB's *Policy on Indigenous Peoples*.

### D. Environmental Impacts

87. The Program is classified as category C in accordance with ADB's *Environmental Assessment Guidelines*. The matrix of environmental impacts (Appendix 11) indicates that the adverse impacts that might arise during Program implementation are of minor significance. Assistance will be provided by advisors engaged under the TAC to help ensure that program activities, particularly those relating to preparation of the sector investment program, are carried out in accordance with relevant environmental safeguards and policies. In addition, the Program is expected to result in a number of important environmental benefits. These include strengthening the Government's institutional capacity for natural resource management and planning, and passage of the country's first comprehensive environmental legislation (i.e., the EPA). The latter will, inter alia, provide a legal basis for introducing formal environmental impact assessment requirements and is expected to result in the eventual creation of an environmental protection agency.

## VII. ASSURANCES

### A. Specific Assurances

88. In addition to the standard assurances, the following assurances will be incorporated in the legal documents:

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<sup>19</sup> Reliable statistics on poverty are not available for Afghanistan. However, various estimates place the proportion of the population living below the threshold of \$1 a day or consuming below the FAO's minimum requirement of 2,453 calories a day per capita at 60–80%. Further, preliminary ADB estimates indicate that about 53% of the population live below the poverty line of \$90 per capita per annum in 2002 prices.

- (i) The policies and actions taken before the date of the Loan Agreement as described in the development policy letter and the policy matrix will continue to be in effect for at least the duration of the Program.
- (ii) The Government will adopt the other policies included in the Program and specified in the development policy letter and the policy matrix in a timely manner and will ensure that the policies and actions continue to be in effect for at least the duration of the Program.
- (iii) In accordance with ADB's *Policy on Indigenous Peoples*, the preparation of a comprehensive land policy and policy on forestry and rangeland management will include the integration of customary and statutory land tenure regimes, and will involve the participation of civil society groups.
- (iv) The Government will use the local currency counterpart funds generated by the loan to meet program expenditures and the adjustment costs of reform and will channel the funds to MAAH, MIWRE, MRRD, and the other IAs.
- (v) The Government will take into account gender-specific constraints to accessing credit and other agricultural services in developing action plans.

#### **B. Conditions for Disbursement**

- (i) The loan will be released in two installments upon satisfactory compliance with the conditions as specified in the development policy letter and policy matrix. The first tranche, equivalent to \$30 million, will be made available upon loan effectiveness. The second tranche of \$25 million equivalent will be made available upon satisfactory compliance of the second tranche conditions specified in the policy matrix attached. No withdrawal will be made from the loan account in respect of the second tranche unless ADB is satisfied, after consultation with MOF, that sufficient progress has been made.
- (ii) Before submitting to ADB the first application for withdrawal from the loan account, the Government will establish a deposit account at DAB.

### **VIII. RECOMMENDATION**

89. I am satisfied that the proposed loan would comply with the Articles of Agreement of ADB and acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 37,581,000 to the Islamic Republic of Afghanistan for the Agriculture Sector Program, from ADB's Special Funds resources with a term of 40 years, including a grace period of 10 years, an interest charge at the rate of 1% per annum, with the interest charge during the grace period to be capitalized and charged to the loan account, and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board.

Joseph B. Eichenberger  
Vice President (Operations 2)

7 April 2004

## **THE NATIONAL DEVELOPMENT FRAMEWORK: OFFICIAL SUMMARY, KABUL, APRIL 2002**

### **A. Preface**

1. The following is an early first draft of the Afghanistan National Development Framework. The draft reflects directions provided by the Board of the Afghan Assistance Coordination Authority (AACCA), chaired by the Chairman of the Interim Administration and individual consultations carried out by the Ministry of Planning, the Ministry of Reconstruction, and the AACCA. The draft is based on inputs from the government departments, joint needs assessment process and inputs from other actors on the ground.

2. This document attempts to set out national strategy and includes national priorities and policy directions.

3. This early first draft is presented to the participants of the Implementation Group in order to convey an early sense of the direction taken by the Interim Administration in the development of the country, and to place in an appropriate context the priority projects presented in the course of the meeting. It is envisaged that within six weeks a National Development Budget will have been finalized. Finalization will entail a further series of extensive consultations with ministries, international organizations and the nongovernment organization (NGO) community.

4. The ongoing process to create the national development budget has included the establishment of the Development Budget Commission, composed of the Ministry of Planning, Ministry of Finance, Ministry of Reconstruction, and the AACCA. All projects are expected to be anchored in one of the programs identified within the National Development Framework, unless exceptional circumstances apply. In this regard mechanisms for project and program review are being established.

### **B. The National Development Framework**

5. There is a consensus in Afghan society: violence as a means of compelling the majority to submit to the will of a minority must end. The people's aspirations must be represented and reflected in an accountable government that delivers value on a daily basis. This consensus forms the foundation for a vision of a prosperous and secure Afghanistan. The current poverty of the country is painfully obvious; this vision of a peaceful and prosperous future is a beacon that can mobilize the energies of an enterprising and independent people, guide them in their collective and individual pursuits, and reinforce the sense of national unity, mutual dependence, and participation in a common enterprise.

6. Our people are poor, the majority is illiterate, but the sophistication of political debate and awareness is remarkable, in great part due to the international media. Despite the years of war, our opinions are also shaped by a myriad of networks that link us to the international community. There is a widespread desire to retain the current international interest in our country, and to channel it in ways that would lay the basis for multiple partnerships between different groups in our society and the global community.

7. This desire for engagement is premised on the hope that international engagement will be an instrument for ending our poverty, the reestablishment of our sovereignty and national unity, and a foundation for sustainable prosperity. Our people's expectations have been raised



by the promises of world leaders that they will be with us for the long haul. The succession of visits and delegations are a sign to our people that the engagement is continuing.

8. Discussions of development, however, remain abstract. Public opinion is shaped by concrete manifestations. If the general discussions are not connected to changes in the daily lives and experiences of the people, public opinion could easily turn skeptical.

9. Afghans have been disappointed by the international community before. Hope could then be replaced by frustration, and frustration, in a context of raised expectations, is a recipe for anger, discord, and finally conflict. For us to capitalize on the current consensus, then, we must deliver, and deliver soon; as words become deeds, belief in the possibility of a safe and prosperous future will grow.

10. Delivering rapidly, however, does not mean delivering unwisely. We must internalize the lessons of 50 years of experience of international assistance. Afghanistan offers a unique opportunity to prove to the skeptics that the aid system is relevant in a post-conflict context, and that difficult challenges can be met with determination, partnership, and vision.

11. Five lessons stand out:

- (i) First, the developmental agenda must be owned domestically, and the recipient country must be in the driver's seat.
- (ii) Second, the market and the private sector is a more effective instrument of delivering sustained growth than the state.
- (iii) Third, without a state committed to investing in human capital, the rule of law, the creation of systems of accountability and transparency, and providing the enabling environment for the operation of the private sector, aid cannot be an effective instrument of development.
- (iv) Fourth, people in general and the poor in particular are not passive recipients of development but active engines of change. Sustainable development requires citizen participation and adopting of methods of governance that enable the people to take decisions on issues that affect them and their immediate surroundings.
- (v) Fifth, donor-funded investment projects, unless they are anchored in coherent programs of government, are not sustainable. Structural adjustment programs, unless they are translated into feasible projects, do not result in reform.

12. There is an emerging consensus that the budget must be the central instrument of policy, and that the country should have the capacity to design programs and projects that are part of a coherent developmental strategy. All interventions must have clear outcomes, and be properly monitored.

### **C. The Strategy**

13. Our developmental strategy has three pillars: The first is to use humanitarian assistance and social policy to create the conditions for people to live secure lives and to lay the foundations for the formation of sustainable human capital. The second is the use of external assistance to build the physical infrastructure that lays the basis for a private sector-led strategy of growth, in such a manner as to support the building of human and social capital. The third pillar is the creation of sustainable growth, where a competitive private sector becomes both the engine of growth and the instrument of social inclusion through the creation of opportunity.

14. Cutting across all our activities will be the issues of security, of administrative and financial reform, and of gender.
15. A brief outline of the programs and subprograms contained in each pillar will be provided here.

### **1. Pillar 1—Humanitarian and Human and Social Capital**

16. We are still in the midst of a humanitarian crisis. We are keenly aware of the needs and conditions of our vulnerable people. We need immediate action in the following areas: Refugees and returnees; between 1.4 to 2 million refugees are expected to return to their homes, along with thousands of internally displaced. A systematic and integrated approach will be required if we are to help them reintegrate safely and develop secure livelihoods rather than end up in shanty towns. Education, after years of neglect and worse, will be the foundation of economic growth and poverty reduction. Vocational training is a priority, in particular to assist the *mujahadeen*, many of whom have sacrificed so much in the cause of freedom, and to assist women. Health and nutrition will require massive and long-term investment if we are to lift Afghanistan from 169 in the human development index. Two areas need particularly urgent attention, malnutrition, and better obstetric care that will bring down the unacceptably high levels of maternal and infant mortality rates. Afghans have shown a remarkable ability to survive in the face of disaster, but there is a need to invest in livelihoods to facilitate our enterprise in the search for a good living. And finally, after the ravages of the Taliban, we must act fast to preserve our national heritage, we must remember the vital role of culture in the process of national reconstruction and defining Afghan identity.

17. It is vital that we take an integrated and programmatic approach to all work in this pillar.

18. We cannot afford sectoral and localized projects that lead to disconnects. So we are initiating two, large-scale, integrated programs as the foundation of much work in this pillar. Firstly we will initiate a national community development program, known as National Solidarity, which will deliver block grants to communities across the country. And secondly we have designated 10 key areas for special attention because they have been worst affected by human rights abuses and will be centers of refugee and internally displaced person return. We are requesting the United Nations (UN) agencies and bilateral donors to help us develop rapidly a series of projects in these areas.

### **2. Pillar 2—Physical Reconstruction and Natural Resources**

19. We intend to begin the reconstruction and expansion of the physical infrastructure as soon as possible. The government is committed to launching public works programs immediately in order to offer opportunities to the unemployed and under-employed. We have identified a number of programs in this area and are in the process of preparing specific projects within each of the programs. For example, roads, water and sanitation, and the energy sector all need urgent attention. As the country will be rebuilt by its families, we also need to ensure people have access to building materials.

20. In urban management our aim is to invest in a balanced urban development program across the country to create viable cities that are hubs of economic activity, and organically linked to rural areas. With the concentration of population in some cities, they would play a major role in the overall improvement of human development indicators. In terms of municipal

infrastructure we need to focus on some immediate and pressing needs such as roads and transport sewerage, waste management, drinking water and sanitation.

21. As much of the physical infrastructure of government has been destroyed, we will implement a national program of construction that will create or restore the physical infrastructure of government across the country.

22. Our approach to physical infrastructure is based on lessons from international experience. The state will define the areas of priorities, but it will not be the implementing agency. Instead, we will turn to the national and international private sector to help us design and implement our projects. Communities and NGOs will be asked to participate in identification, monitoring, and evaluation of these programs and projects. We will pay serious attention to the operation and maintenance costs of these projects and will be looking closely at their financial and economic sustainability. The issue of medium to long-term consequences of short-term interventions has already become clear in the health sector. For example, there has been considerable interest in the rehabilitation or construction of hospitals in Kabul. But our health experts are pointing out that the recurrent costs of hospitals located in the capital could be a serious drain on resources that could be more usefully directed towards preventative medicine.

### **3. Pillar 3—Private Sector Development**

23. The implementation of the infrastructure program will give some impetus to the development of the private sector, but it is in the development of a competitive export-oriented economy that our real hopes for the private sector lie. We are in the fortunate position that the European and American markets are open to our exports. We are in the process of being granted most favored nation status and we are receiving strong support from the US Administration and Congress for textile quotas.

24. We need to meeting international standards on health, organic agriculture, child labor, certificates of origin, and other technical requirements. We will need assistance in these areas and consultations with our entrepreneurs to explain the opportunities that exports to Europe will provide. The development of the export market for our agricultural and horticultural products is critical to our strategy of eliminating poppy cultivation. With high-value and low-volume products, we can be confident of offering our farmers secure livelihoods. We are planning to use our Overseas Private Investment Corporation guarantee to assist in the development of an agricultural processing industry.

25. Recognizing the enormous international interest in Afghanistan, we are creating a “Made in Afghanistan” label and “Made in Afghanistan by Women” label to enable Afghan producers to realize the maximum from their labors. We hope to link Afghan producers to a number of large department stores. Afghanistan has considerable assets; sustainable use and development of these assets will require foreign direct investment. We are working on the relevant policy and legal frameworks that would attract investment, including, for example, the urgent need for a basic regulatory and licensing framework for telecommunications.

26. We must also use internal trade as a way of binding the country back together again, economically as well as politically. Alongside the roads programs already mentioned, this will mean reinventing our market places in secondary and tertiary towns,

**a. Governance, Financial Management, and Administrative Reform**

27. We know that good governance is a precondition for attracting direct foreign investment. We are addressing the issues of financial management, auditing, and procurement through hiring international private firms chosen on the basis of direct competition. Our goal is to have a budgetary process that would meet the international standards for receiving direct donor support for reconstruction and development projects. Building the domestic revenue collecting ability of Afghanistan will be a key part of the reconstruction process. Revenue capacities, and particularly the national unity of the revenue collection system, have been in disarray during the recent period and need to be rebuilt.

28. The degradation of our financial institutions in fact offers us an opportunity to move forward with speed and determination in creating management systems that will provide the underpinning for accountability, efficiency, and transparency. Our banking sector requires a major over-haul, and we are embarking on this process. The central bank's role is being strengthened and the government has made a commitment in its budget decree to observe financial discipline and not resort to overdraft. We are emphasizing the need for urgent capacity building in the central bank and the banking sector and are requesting urgent technical assistance in this area. We are examining the relevant laws and regulations and are preparing a series of measures to provide a firm legal basis for a modern financial sector.

29. Rule of law is the basis of good governance. The administration has strictly abided by the Bonn agreement and is determined to see the Emergency Loya Jirga take place on time. We are determined to use the time remaining to the Interim Administration to prepare proposals and plans for strengthening the rule of law and to implement measures that would enhance the confidence of our people in their government.

30. We view the principle of accountable government as applying as much to our development policy as our administrative and judicial. We in the advanced stages of planning a national community empowerment program, called National Solidarity, which will deliver a series of block grants to communities to enable them to make decisions in a participatory manner on their key priorities. We are planning to cover at least one to two districts in every province under this program. This approach should enable members of the communities to choose their local leaders, and to strengthen their collective efforts in mobilizing their own resources to supplement those provided by the government.

31. We must get the balance right between Kabul and the provinces, between the urban centers and the rural areas. This is important both to ensure an equitable balance in our investments, and in terms of the political and administrative relationship. All interventions, whether roads, sanitation, power or drinking water, will be chosen on the basis of an even-handed approach to spatial development that focuses on needs not on ethnic group. While Kabul's needs are immense, and there is an urgent need for a comprehensive reconstruction plan of the city, our focus must be the entire country. The physical infrastructure of government is either destroyed or severely damaged. We are therefore planning a major program of construction of the physical infrastructure of governance across the country. Each ministry and district must have a minimum number of facilities and these facilities should be equipped with means of communication to enable speedy flow of information between levels of government and to connect Kabul to the provinces. Only then will we be able to link up the country under a unified government.

32. We have carried out an assessment of the capacity of our line ministries and have reached the conclusion that we need an innovative approach to the rapid building of capacity as well as a strategy for reform of the administrative system. Our approach to the immediate problem is to create implementation cells of between 10 and 40 people in line ministries. The staff of these cells, to be recruited on the basis of clear criteria of merit, technical competence, and clear definition of tasks, will be provided with the resources to translate our overall programs into specific projects and oversee the implementation of these projects by the private sector, NGOs and international contractors. They will be supported by technical assistance from donors and will work closely with AACA to enhance coordination between communities, the government, donors, NGOs and the UN.

33. We will be adopting a similar approach to the provincial administration.

34. The years of conflict degraded the civil service. We now need to start work in earnest on the important task of creating a modern and efficient civil service. The Civil Service Commission has been selected and will start its work soon. It will need to be supported by strong analytic work and by inputs from key actors in the development arena to formulate and implement a comprehensive agenda of reform. Of particular importance will be training, in both management and technical areas. A civil service training college is being proposed.

35. Pay scale is a critical issue. NGOs, bilateral, multilateral organizations and the UN system have pay scales that exceed the government's pay scale by a factor of 50 for their national staff. The differential in pay between international staff and government staff is a factor of 1000 to 2000. such an uneven playing field militates against the building of capacity. While the market cannot be controlled, there has to be an imaginative and principled approach to addressing this critical issue. Donors should make a clear commitment to increasing the number of their Afghan national staff and should join the government in setting up a task force to propose sustainable solutions to this problem. Without a workable solution, this problem will haunt all our good intentions for creating capacity.

#### **b. Security and the Rule of Law**

36. Rule of law and good governance depend on security. The Afghan state must have a legitimate monopoly of violence, a corollary of which is that its citizens will not need to pay for the cost of protection as individuals. Freedom of movement, for commodities and ideas, is constrained by perceptions of security. For example, many donors now insist on staying in Kabul, and starting projects there. Kabul's needs are immense, but in our judgment, there are other parts of the country that are more secure than Kabul. Thus does the perception of insecurity exclude areas urgently in need of development assistance from receiving attention.

37. We have prepared a detailed program for the creation, training, and deployment of a national police force. We have, however, been constrained from implementing our program by lack of funds and exclusion of support for the police from the UNDP-administrated Trust Fund. This constraint is being removed, and we hope to embark on our program very rapidly. We have also formulated our plan for the formation of a national army and the first battalion of the new army has been trained and deployed as the National Guard.

38. We will also need to provide for absorption back into society of the *mujahadeen*, who have sacrificed so much for the independence and dignity of this country. Absorption of the *mujahadeen* into the economy, society, and polity is a significant challenge. We plan to meet this challenge through a series of measures. A large scale program of vocational training, based

on an analysis of the needs of an expanding economy, will be a critical part of this program and we are inviting donors to assist us in implementing this program quickly. Demining is also an urgent priority and a precondition for agricultural recovery and freedom of movement.

39. We are counting on finding solutions to meeting the expenses of the security sector quickly. In Geneva, there have been extensive discussions on meeting the costs of the national army and police and we now need to act rapidly. Our developmental efforts depend on the provision of security, as without the perception and reality of security of person and property, people will not feel safe to invest.

40. The judicial system will be revived through a program that provides training, makes laws and precedents available to all parts of the system, and rehabilitates the physical infrastructure and equipment of the judicial sector.

41. Our vision of security, however, is broader than the services provided by the security sector to the citizens. Security of livelihood is critical to our endeavor, to eliminate poverty, to provide social justice, remove barriers to inclusion and to create a society where all citizens are provided with access to equality of opportunity.

#### **c. Gender**

42. Gender is a critical issue for us. Subjected to the segregationist policies of the Taliban, our girls and women need special attention. We do not want gender to be a ghetto. There must be specific programs directed to enhancing the capabilities of our girls and women. More importantly, all programs must pay special attention to gender, and not include it as an afterthought. We have to engage in a societal dialogue to enhance the opportunities of women and improve cooperation between men and women on the basis of our culture, the experience of other Islamic countries, and the global norms of human rights.

#### **d. Research, Information Management and Policy Making**

43. As a living document, this framework will be amended, modified, and transformed in the light of new research, experience, and knowledge. Its implementation will thus depend on access to and management of information. Currently, very little reliable information exists, often information is fragmented and hoarded. This hampers the government's ability to respond to predictable crises and to make policy based on evidence of what works and what does not.

44. The government will create and maintain an information management system on all donor activities. Standards for information gathering need to be set, and information shared promptly and widely. Timely monitoring and evaluation of programs and projects will be built into their design. The Afghanistan Information Management System will be one component of this larger strategy. We have already received assistance and are in the process of implementing this policy. All information management systems created by individual donors should provide inputs to the government's information management system currently at the AACCA that will be eventually transferred to the Central Statistical Office.

#### **e. The Role of the State**

45. Finally, our strategy of development provides a clear role for the state. The state must provide security, invest in human capital, and articulate and implement a social policy focused on assistance to the vulnerable and excluded and the elimination of poverty. It must create an

enabling environment for the activities of the private sector, make effective use of aid to attract trade and investment, and put the economy on a sustainable path to growth.

46. We thus need an effective central government that re-establishes the national unity of the country on the basis of strong institutions and the rule of law. Simultaneously, we are committed to building on community level participation and effective management at the local level. We do not see government as the producer and manager of the economy, but as regulator and promoter of the entrepreneurial energies of our people. The state will enter into a direct managerial role only when social justice demands its presence. The government will act in partnership with communities, NGOs, donors, UN organizations, and the national and international private sector to implement its programs, and realize its vision. As the legitimate representative of the people, it is the key task and challenge of the government to create the institutions and organizations that would embody principles and practices of good governance.



INTERNATIONAL MONETARY FUND  
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CABLE ADDRESS  
INTERFUND

December 17, 2003

Mr. Yoshihiro Iwasaki  
Director General  
South Asia Department  
Asian Development Bank  
P.O. Box 789  
0980 Manila  
Philippines

Dear Mr. Iwasaki:

As requested, I am writing to inform you about the IMF staff's assessment of Afghanistan's current macroeconomic conditions and prospects, and how the IMF intends to assist the Afghan authorities.

The authorities have made solid progress in implementing sound economic policies. As an initial step, the authorities have focused on making progress toward macroeconomic stabilization. Fiscal policy has been characterized by a strong discipline, as evidenced by the "no overdraft rule," which prohibits monetary financing of the budget. This policy has constrained government spending to the amount of domestic revenues actually collected and donor assistance available, and enabled the central bank to keep money growth broadly in line with nominal income growth. As a result, after successfully introducing the new currency in late 2002, inflation and the exchange rate to the U.S. dollar have been broadly stable during 2003.

Sound macroeconomic policies, together with the cessation of major hostilities, the end of a prolonged drought, and sizable donor assistance have contributed to the resumption of economic growth. Real GDP grew by some 30 percent in real terms during 2002/03 (March 21–March 20), and is expected to grow a further 20 percent in 2003/04.

On the structural front, several reforms have been implemented. The central bank and banking laws have just been enacted, giving independence to Da Afghanistan Bank and paving the way for modernization of the financial system. Three foreign banks have since obtained banking licenses. Also, Afghanistan has made significant progress in expenditure management, mostly in Kabul. An ambitious customs policy reform package is under consideration and is to be followed by a reform of tax policy and administration. However, in other areas, progress has been slow. Little progress has been made in civil service reform. Nevertheless, a decree was passed in July 2003 allowing for interim additional salary payments to key civil service personnel. This will help the government attract and retain qualified staff in important positions in a system which has an extremely compressed salary



structure (mainly because a major component of salaries is a fixed food allowance). Public enterprise reform is yet to begin. Activity so far has been limited to establishing a census of state-owned enterprises (SOEs). Audits of the assets of SOEs are underway, but have been hampered by lack of records and absence of foreign assistance in this area. Little progress on privatization is expected any time soon.

The economy should continue to recover, but the authorities need to put in place a legal framework that is conducive to private investment and address three serious challenges: (a) the security situation, which remains fragile and could complicate macroeconomic management and hinder the reconstruction process, particularly outside Kabul; (b) the reemergence of opium production which, if not eradicated, could strain the country's internal security and political stability; and (c) the possibility of a premature weakening of the financial support from the international donor community.

Substantial donor support in the future is crucial to help the government address more aggressively the many basic needs in the areas of security, education, health, and also institutional reforms to help promote sustainable economic growth and combat poverty. Since Afghanistan's capacity to repay debt is likely to remain extremely limited in the near future, it will need to rely overwhelmingly on grants, and limit strictly its borrowing (even on highly concessional terms), to attain its reconstruction and development goals while ensuring debt sustainability.

Looking ahead, at the request of the authorities, an IMF staff team will visit Kabul to initiate discussions on a staff-monitored program (SMP), security-situation permitting. The SMP was considered the appropriate first step toward closer Fund involvement in view of Afghanistan's limited administrative capacity and serious data deficiencies. The start of the SMP will be timed with the beginning of the new fiscal year (March 2004). It would be designed to maintain financial stability and help the authorities establish a track record demonstrating Afghanistan's ability to undertake policies typically included in a Poverty Reduction and Growth Facility arrangement. Should an urgent balance of payments need arise in the interim, support under the Emergency Post-Conflict Assistance could be made available.

I hope you find this assessment helpful. Please do not hesitate to call on myself or Mr. Symansky, the mission chief for Afghanistan in the Fund, if we can be of further assistance.

Yours sincerely,



George T. Abed  
Director  
Middle East and Central Asia Department

## SECTOR ANALYSIS

### A. Natural Resource Management

1. Afghanistan has a total land area of about 65 million hectares (ha) of which approximately 80% is either mountainous or desert, with forest cover of only around 1.3 million ha or 2% of the land area. Forest area has declined from 1.9 million ha in 1996. There is one national park and five protected areas. In recent years, forest cover has diminished due to community demands for fuelwood and illegal logging. It is estimated that offtake rates are exceeding annual growth rates, leaving a deficit of about 30,000 ha of forest per year. If nothing is done, Afghanistan will have very little natural forest or its associated wildlife left in 15 years' time. On purely conservation and environmental grounds, Afghanistan should have at least 5% of its land area, or about 3.2 million ha, of forest cover. This in turn would facilitate preservation of the country's rangeland and watershed resources, and help to stem the loss of biodiversity and rural livelihoods.

2. Illegal logging is largely a function of the security situation and control of local resources by local commanders in collaboration with traders from neighboring countries. Forestry legislation has been in draft form for many years, awaiting clarification of tenure and land use rights of local tribes in many parts of the country. The lack of a legal framework clarifying tenure, user rights, and oversight responsibilities, combined with the collapse of government institutions, has led to resource rents being controlled by local elites. Local communities, with the help of nongovernment organizations (NGOs), have attempted to protect forests, but local leaders have disrupted these efforts, which has resulted in the disintegration of both social organizations and physical barriers such as fencing.

3. The demand for fuelwood is estimated to be less damaging than illegal logging, but is nevertheless destructive. The issue needs to be addressed within a policy framework of rural energy needs incorporating provisions for community or social forestry programs. Similarly, recent years have witnessed the cultivation of rangeland as communities sought ways to mitigate the effects of drought and population pressures in some areas. These activities have resulted in the widespread degradation of both forests and rangeland, with consequent flooding, water shortages, and severe soil degradation in many areas.

4. Government agencies have had a limited role in conservation activities over the last 20 years, with most of the work being done by NGOs. NGOs have been working directly with local communities and community representatives (*shuras*), and have focused their activities on sustaining livelihoods based on horticulture and agroforestry interventions. While the contribution of NGOs has been large, there has been little coordination of programs and only limited efforts have been made to evaluate their effectiveness. This experience and the lessons learned will need to be integrated into future activity planning and mechanisms will need to be created to link reformed government agencies with NGOs, either through partnerships or formal contractual arrangements.

5. There is a general consensus that the natural resources in Afghanistan are in poor condition. The extended drought is commonly cited as the principal cause together with the long period of conflict. While the conflict has undoubtedly been an important contributor, the impact of the drought should not be seen as an event that necessarily results in a degraded environment. Afghanistan has a long history of drought of varying degrees of severity and will continue to experience such periods. Traditional coping and mitigation strategies have broken

down under growing population pressures, the collapse of the rural economy, and control by local elites. Such strategies must be rebuilt within the context of a community development approach and effective natural resource management. In the future, vulnerability to drought must be significantly reduced by incorporating a range of technologies and by strengthening off-farm income-generating activities. Any tendency to misuse natural resources must be countered by appropriate environmental management institutions backed by legislation. Currently, Afghanistan does not have an agency with overall responsibility for natural resource protection.

## **B. Water Resources**

6. Water is Afghanistan's most precious natural resource. This resource must be managed efficiently and sustainably as it is fundamentally scarce and drought is a common occurrence. Currently, significant opportunities exist to improve water use planning, efficiency, and management, as only 15% of runoff is contributing to aquifer recharge and irrigation system efficiency levels are only at about 25%, when a level of 40% should be the norm. Moreover, demands on the resource base have grown and are expected to continue to grow. The scope also exists to expand the irrigation area. The Food and Agriculture Organization of the United Nations (FAO) has estimated long-term water availability at about 2,800 m<sup>3</sup> per head per year, enough to irrigate 5 million ha, which is significantly higher than the current command area of 2.6 million ha.

7. Total developed irrigated area in 1978 was estimated by the FAO to be 2.63 million ha, consisting of (i) 1.32 million ha by traditional methods from perennial rivers; (ii) 0.98 million ha by traditional methods from ephemeral streams, *kereze*, and *arhads*; and (iii) 0.33 million ha by modern systems from perennial rivers. Only 1.44 million ha had sufficient water supply to support double cropping. Approximately 2.3 million ha or 90% of the total area uses traditional schemes developed and built by farmers, which are operated and maintained according to traditional communal customs and practices.

8. The effects of war and neglect on these systems have not been systematically assessed. While there has been substantial financial and technical support for rehabilitation since 1989 from NGOs and United Nations (UN) agencies, comprehensive data on the scale and extent of successful and sustainable rehabilitation are not available. In 1997, FAO estimated that about 1.7 million ha required rehabilitation, and another 0.7 million ha required improved water management. A limited number of large formal irrigation systems have also been built, operated, and maintained by the state, but are now dysfunctional and in need of major rehabilitation. These large formal schemes raise significant technical, institutional, and social issues as the schemes will require infrastructure rehabilitation, repairs to dams and other major structures, and many—particularly those in the plains and in the south—have serious water management problems, including water logging and salinity.

9. The Government needs to develop appropriate policies to effectively manage and monitor groundwater development and use. Groundwater, whether a part of annual recharge or of nonrenewable reserves, could serve as the most important safeguard in times of drought or low water availability. While this is a principle mentioned in the 1981 Water Law, legal and regulatory approaches will require effective public institutions and obedience to the rule of law. A promising approach in the interim that is being applied in many areas of the world is to involve communities directly in conjunctive use and management of surface water and groundwater, in some cases by forming special groundwater management districts in which all water users (of both surface water and groundwater) have an effective role in decision making.

10. While the increase in vulnerability to low rainfall can be traced to unsustainable land use practices—involving overgrazing, deforestation, and cultivation of marginal lands—these practices are an outcome of increased population density, a shrinking natural resource base, and limited opportunities for alternative employment and income generation. When prolonged drought occurs, asset depletion, low agricultural production, increased indebtedness, low food supply, poor health, and increased uncertainty sustain a downward spiral in the quality of rural life that is difficult to recover from when rainfall returns to normal. For this reason, providing support to the off-farm rural economy is a high priority, as efficiently targeted and implemented labor-intensive interventions to rehabilitate rural infrastructure, such as roads and storage facilities, provide needed employment and livelihood improvement.

11. Given the country's variable climatic conditions and vulnerability to drought, information systems on current and expected weather, rain, and water accumulation in the winter snow pack are important in terms of both farmer decision making and cropping enterprises, and at the macro level in preparing short- and long-term strategies to reduce vulnerability to drought. Such strategies may involve water conservation and improved efficiencies in water use; water harvesting and watershed management; small storage dams; and river basin planning and management. In Afghanistan, timely and reliable data on the amount of water stored in the snow pack are especially important because snowmelt is the primary source of spring runoff and river flow. Surveys of snowfall to measure water storage and forecast expected runoff are commonly undertaken in river basins in other countries with similar climatic conditions.

12. The river basin (and sub-basin as appropriate) should be the basic unit for planning and management. To enable multisector and often conflicting demands to be managed, a national water coordination agency should be established with responsibility for guiding all aspects of water use across government ministries (both planning and regulation) as well as monitoring, protection, and conservation of the resource base. Sustainable management of rivers and their use for irrigation and hydropower as well as other uses, and the management of flood hazards and risks, are and will be important determinants of the country's prosperity.

13. There is considerable scope for transferring management of the larger irrigation schemes to beneficiaries. The state owns about 0.4 million ha within such schemes. The rehabilitation of such schemes should be based on an approach that is the outcome of active community participation, as community groups should take over system management, including operation and maintenance of the infrastructure.

### **C. Crop Agriculture**

14. The arable agricultural resource base is about 7.5 million ha of cultivable land, which is divided into rainfed and irrigated land. The rainfed area is estimated at about 4 million ha, and is largely located in the northern provinces where cereal production predominates. The rainfed area actually cultivated in a particular year varies considerably depending upon climatic factors such as precipitation and the area that needs to be left fallow. The recent succession of dry years had reduced the annually cultivated rainfed area to less than 0.5 million ha before rebounding in recent years. Rainfed agriculture is largely undertaken in the northern provinces and is dominated by the production of cereals.

15. Rainfed cereal productivity levels have also been low, averaging some 0.6 metric tons (mt) per ha in recent years, partly as a result of the drought. Rainfed cereal production fell to about 10% of expected production in a normal rainfall year during that period. As a consequence, food security became a key concern, especially in the north. Recovery strategies

for these areas must be predicated on the assumption of highly variable rainfall and risk mitigation. In particular, farmers must be able to respond to favorable weather conditions quickly and, since cereal yields and the margin above subsistence will always be relatively low, in a cost-effective manner.

16. Farmers must also have ready access to quality seed, fertilizer, and farm draught or mechanical power. In addition, they will need technical advice on recent developments in dry-land farming systems, including water harvesting and access to effective plant protection and disease control systems. To take advantage of quality inputs, farmers will need to have access to rural finance. In the last 10 years, NGOs, UN agencies, and in particular the FAO have been involved in agricultural rehabilitation, developing farmer-based seed multiplication programs, promoting technology transfer, and supporting agricultural service delivery systems, including of microcredit. The lessons learned from these experiences need to be incorporated into effective strategies and programs.

17. Inputs such as seeds, fertilizer, and agrochemicals are being provided by a number of funding agencies, including NGOs. In some instances, inputs are provided free of charge. There is a need for closer coordination of input provision to ensure that both quantity and quality issues are adequately addressed. In particular, a consensus needs to emerge on a strategy that effectively moves the current situation toward the government vision of private sector-led distribution networks for the main inputs. Such a strategy will have to address the appropriate role of the public sector in plant protection programs and the requirements to establish systems for certification and regulation of the quality of seeds, fertilizers, and agrochemicals provided by the private sector.

18. There is considerable potential for productivity improvements even allowing for the low and variable rainfall regime. The International Center for Agricultural Research in Dry Areas has promoted drought-tolerant varieties and cultural practices for cereals, legumes, and forage crops that could significantly increase returns and crop yields. With the introduction of extensive and well-designed micro watershed management and the adoption of micro water-harvesting techniques, the potential for further yield increases is significant. The potential to improve rain-fed cereal yields suggests that rainfed farming could play an important role in agriculture sector recovery. Over the longer term, the possibility of Afghanistan being able to produce 1.5–2.0 million mt of cereals annually from its rainfed farming areas would transform agricultural development. Food security concerns could then be relegated to very specific marginal areas, and costly irrigation water could, for the most part, be used to grow high-value cash crops. A further advantage of such a strategy is that it is based on the careful management of micro watersheds, which means that communities would be drawn into an integrated approach to resource use, combining water, forestry, rangelands, and crops. This is the traditional Afghan approach, which has largely broken down in the course of the past 20 years.

19. The relatively low and variable rainfall regime places a premium on irrigated land. It is estimated that 85% of all agricultural output is derived from the irrigated areas. The general management of water resources and the efficiency of irrigation systems is therefore of critical importance to the whole food economy. While the potential irrigable area has been estimated at 5 million ha, only 2.6 million ha have been developed, and under normal conditions about 1.4 million ha would have sufficient water for double cropping. The productivity of all types of irrigation systems could be improved substantially. Firstly, improved on-farm water management and appropriate inputs would substantially increase yields. The average national yield of irrigated wheat in recent years has been around 1.3 mt per ha. With improved water management and inputs, a long-term goal of a national average yield for irrigated wheat of 3.0–

3.5 mt per ha would be feasible. By way of comparison, the average yield for International Maize and Wheat Improvement Center bread wheat lines in the period 1995–2000 under a range of agroclimatic conditions varied from 4.6 to 5.7 mt per ha. In addition to yield improvements, better water management would contribute to higher cropping intensities, which are a function of water availability and length of growing season. Better water management should enable the proportion of the irrigated command area that could be double cropped to rise from 50% to at least 65%.

20. The principal output of the irrigated systems is wheat, accounting for about 80% of production, and a range of horticultural crops. It is expected that the irrigated wheat area will decline as rainfed wheat production becomes more productive and farmers begin contributing toward the cost of the water. The development and rehabilitation of irrigated agriculture requires significant investment, which has to be recovered, and a single crop of wheat, even at a yield of 3.0 mt per ha, is not sufficient to recover such costs. A much higher proportion of the irrigated area should be devoted to high-value cash crops. Agroforestry and horticulture are small but previously highly productive subsectors, at one time accounting for 40% of total export earnings. Such crops plus a range of others that have not traditionally been grown in Afghanistan, should be assessed and where feasible piloted.

21. The long period of conflict and recent drought have had a devastating impact on the horticulture industry. Precise figures are not available, but observation and small surveys suggest that approximately 50% of Afghanistan's orchards have been destroyed. The feasibility of rehabilitating the industry will be determined by the potential to compete in international markets. Other countries have entered the markets vacated by Afghanistan and regaining its former market share will be difficult. A detailed survey of potential markets and their entry requirements will need to be undertaken. Formerly, Afghanistan also produced a number of industrial crops such as cotton and sugar beet, which were linked to substantial processing facilities. These facilities are largely moribund. Feasibility studies will be needed to determine the prospects for these industries, and future investment in agribusiness must come from the private sector.

22. The recovery of commercial agriculture and much of the cereal subsector will require finance, which is not readily available. The reestablishment of agricultural credit facilities requires detailed assessments of the feasibility of introducing both community-based and asset-based lending. There is a need to attract commercial funds into agriculture, which means asset-based lending using land titles as collateral and related bankruptcy procedures. However, such lending instruments are not well established. Indeed, with less than 25% of landholders having clear legal title to their land, lack of collateral will be a constraint. A review of the rural financial system to identify an appropriate institutional framework is required, including an assessment of existing bank and nonbank financial institutions.

#### **D. Livestock**

23. Livestock activities have traditionally been part of most farming systems in Afghanistan, with livestock and their products providing farm draught power, family nutrition, raw materials for the production of household goods, and tradable products. Livestock activities have traditionally provided households with their only source of cash income. Previously, the livestock subsector accounted for 40% of total export earnings, but it is estimated that at present, subsector exports are negligible and livestock numbers are only about half of their level a decade ago.

24. Livestock raisers are currently facing serious problems including loss of animals, decreased productivity due to declining feed supplies and overgrazing, and the effects of ineffectively treated animal diseases. Moreover, much of the irrigated land that formerly supported livestock is now without water. As a result, the small poultry flocks, which were almost exclusively owned and managed by women, have almost disappeared in many households, while the smallest and poorest farmers who formerly kept at least one cow are now without any animals. The small ruminant subsector has been hampered by traditional user rights and grazing practices even in nondrought periods, as well as a preoccupation with livestock numbers rather than productivity.

25. In the absence of government provision of animal health and livestock services, a range of development partners (FAO, bilateral funding agencies, and NGOs) have supported project activities over the past decade. These include the establishment of veterinary field units, which are now in every province and in most districts. While it was intended that these units would become financially self-sufficient, in most locations the drought and conflict have reduced both demand and farmer-client capacity to pay for services. Other key funding agency activities have involved vaccination programs and deworming treatments. While these activities have provided a range of benefits, the coverage they currently provide is very limited.

26. In larger-scale commercial and semi-commercial livestock ventures, most herds and flocks have been substantially reduced, and earlier investments in assets such as feed mills, commercial poultry operations, and milk processing facilities have largely been lost. To reestablish these activities, new investments in commercial poultry and dairy operations will be important and producers will need to gain access to breeding stock, processed feedstuffs, and equipment. Considerable investment will also be required to reestablish feed mills, and poultry and milk processing plants. Investment is also needed in commercial poultry, red meat, and dairy production. In addition, investments need to be made in production and processing facilities, which add value to livestock products for domestic consumption or export. These include operations such as abattoirs, dairy processing plants, tanneries, wool processors, and fattening operations. The reestablishment of these facilities would also create a market for smallholder-produced livestock products, which is presently nonexistent.

27. Within the Ministry of Agriculture and Animal Husbandry (MAAH), two subdirectorates are responsible for livestock. Currently, both are ineffective as they lack resources to undertake existing functions. Most, if not all, of the staff will require retraining. Further, there are also significant deficiencies in private and public sector skills in commercial poultry and dairy production that also need to be addressed. The facilities that the Government formerly maintained to support livestock production are no longer operational, and are mostly inappropriate for the anticipated new core functions of government agencies. The current absence of reliable information, particularly with respect to livestock numbers and location, and fodder resources, is inhibiting development planning interventions and commercial investments in the sector.

## **E. Agricultural Research and Technology Transfer**

28. The Agricultural Research and Technology Transfer System (ARTTS) was substantial prior to the conflict, though not always focused on the actual needs of the Afghan farmer. This system is now largely nonfunctional as a result of widespread destruction of the supporting infrastructure and loss of skilled human resources. When fully operational, the MAAH's Department of Agricultural Research consisted of 11 subdepartments and carried out its functions through 24 research stations (seven main and 17 submain), covering the full range of

geographic and agroclimatic variability of the country. At the height of their activity, these research stations had over 1,000 staff members, of whom 25% were technical research staff, and covered a land area of about 1,750 ha.

29. In the future, the ARTTS network must focus on adaptive research and technology transfer directly related to agricultural development, and should not be involved in basic research. Internationally, a wealth of new technologies developed for dryland areas have now become available. The major role of ARTTS should be to test, adapt, and disseminate technologies suitable to local climatic conditions. Demand-driven, on-farm participatory approaches to research and development will need to be employed, focusing on farming systems and integrated watershed planning techniques appropriate to local agro-climatic conditions. Institutional capacity building and policy innovations will be necessary to support an enhanced contribution from agricultural research and technology transfer to rural development. Human capacity strengthening will also be necessary to induce institutional innovation in agricultural research and technology transfer. This in turn will require new management training in methodologies for technology dissemination.

#### **F. Institutional Reform and Capacity Building**

30. The National Development Framework (NDF) sets out key principles, policies, and strategies to guide the formulation and implementation of Afghanistan's recovery and reconstruction program. This framework is especially relevant to the agriculture sector. The institutions in these sectors are faced with developing a new vision of their future role, revising the policy and institutional framework for the sector, and the massive task of institutional restructuring and capacity building to enable the respective line ministries, including their provincial and district offices, to lead the recovery and reconstruction effort. The Government's guiding principles in this regard are as follows:

- (i) The line ministries and other state entities will be responsible for overall natural resource planning, policies, and related management parameters; the formulation of programs to deliver agreed upon public services to the community level, including technology transfer; the regulation of private sector activities; and the monitoring of performance of development programs. Implementation, to the extent possible, will be entrusted to the private sector, including the beneficiary communities. In this regard, the Government will create an enabling environment for the efficient operation of national and international firms (particularly those engaged in engineering and construction activities).
- (ii) Local communities will be empowered to decide their development priorities, to contribute to implementation of their projects and activities where possible, and to monitor the work of government agencies and the private sector. The Government's strategy will focus in the near-term on creating employment opportunities and supporting livelihood improvements at the community level.

31. There are three core ministries involved in agriculture and natural resource management. They are the MAAH, the Ministry of Irrigation, Water Resources and Environment (MIWRE), and the Ministry for Rehabilitation and Rural Development (MRRD). The roles and functions of these ministries do not form a coherent structure capable of delivering sustainable and efficient use of natural resources, especially of water. There are overlapping functions, particularly with regard to irrigation development, and significant gaps in the management of natural resources. It will be necessary to review the mandates of these ministries and to



formulate a more holistic view of natural resource management, which will help to ensure efficient allocation to the various users of natural resources.

32. The process of internalizing the new vision of the Government in reshaping the roles of public sector institutions at the central, provincial, and district levels will be gradual. In effect, there are two parallel processes required. One is to realize the vision in the form of a reformed administrative structure in accordance with the above principles and the envisaged approach to natural resource management. The second is the more pragmatic process of initiating change in the existing agencies and reorienting the attitudes of staff to the future direction of Government policy. The latter process is the more difficult to achieve, and will require clear direction from the former.

33. In broad terms, a clear institutional distinction is required between agencies with allocative resource functions and those with user functions. In addition, the institutional arrangements should reflect a community-based user approach. The water subsector provides an important example of the need for significant institutional reform. In Afghanistan, there is no custodian of water resources to set a limit on the various users. To the extent that available resources are assessed, this is done by MIWRE, which is also the major user of water. In these circumstances, there is no objective way in which sustainable ecosystem demands can be determined. The NDF promotes the concept of river basin authorities as a means to link together the microwatersheds managed by their respective communities. It is important that the concept of river basin management is not interpreted as a one-dimensional focus on water. Rather, it should encompass the full range of natural resources utilized by the communities at the microwatershed level. In this way, the mandate of the river basin authority would be consistent with the range of natural resources actually being used.

34. The current structure of the core sector ministries reflects past preference for a highly centralized form of administration, which is the antithesis of current guidelines calling for decentralized decision-making processes. The organizational structure incorporates functions, which often include separate subsidiary structures such as input supply and construction companies. There is considerable scope for divesting ministries of such activities and privatizing the assets. The fertilizer trading and seed distribution companies, and the Helmand Valley Construction Companies, are prime examples in this regard.

35. The field offices of the central ministries will also assume new roles and responsibilities in a decentralized system. In particular, these offices will require infrastructure support and staff training to undertake their new functions. There are certain key activities they should undertake, namely:

- (i) They will be key partners in the participatory planning process based on microwatersheds. Community representatives (*shuras*) will play a major role in determining community needs in this regard.
- (ii) They will coordinate various types of assistance, and guide NGOs and central government agencies toward communities most in need.
- (iii) They should also have a role in project finance, at least to the extent of formulating budgets for each of the districts, ensuring that the benefits from investment are equitably shared, and monitoring the flow of funds and implementation of projects.
- (iv) They will also have a role to play in contracting engineering services directly, assessing proposals from the private sector and NGOs to undertake civil works, and ensuring that only technically qualified firms and individuals receive contracts.

- (v) They will establish and maintain up-to-date sector databases and management information systems.

36. Government institutions have been weakened during the long period of conflict. Ministries have suffered damage to buildings, loss of skilled resources and equipment in Kabul and the provinces, and generally lack the capacity to undertake their functions. A number of services are currently being undertaken by NGOs and community-based organizations. For a long period, the institutions were not exposed to change or international best practices in public sector management. The NDF emphasizes a commitment to establishing an efficient institutional framework in the sector, which will involve streamlined government institutions providing an appropriate policy and regulatory environment for community driven development, based on private sector delivery of services. Developing capacity to achieve this objective will require extensive human resources development and skills training.

37. There are currently a relatively limited number of highly skilled professionals available in technical and management areas to meet the rapidly increasing demand for such services. The available resources are now fully utilized, and a strategy needs to be developed to address the growing shortfall. Key aspects will involve establishing and building capacities to provide training, reestablishing training institutions, and encouraging the return of skilled expatriate Afghan professionals. The latter have the potential to provide badly needed capacity in modern management techniques and economic/technical analysis, among other skills currently in short supply in Afghanistan.

## PROGRAM FRAMEWORK

Design Summary	Performance Indicators/ Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goal</b></p> <p>Promote agricultural growth and poverty reduction through support for market-based policy reforms, public infrastructure investment, and institutional reform and organizational capacity building</p>	<p>Per capita incomes reach levels of neighboring countries within 5 years</p> <p>Agricultural exports restored to levels of 20 years ago as percentage of GDP within 10 years</p> <p>Irrigation efficiency levels reach 40% within 10 years</p>		<p>Government sustains commitment to institution building and policy reform</p> <p>Maintenance of political stability</p> <p>Sustained improvement in the security situation</p>
<p><b>Purpose</b></p> <p>Enhance opportunities for sector revival by addressing key policy, institutional and organizational constraints to the efficient and effective functioning of agriculture and the sustainable use of natural resources</p>	<p>Increased participation of private sector in agricultural production, marketing, and service provision</p> <p>Government capacity for sustainable natural resource management</p> <p>Government capacity for rational sector policy making and planning</p> <p>Restructuring/divestment of all agricultural SOEs</p> <p>Improved food security for all rural households</p>	<p>Government statistics</p> <p>Government progress reports</p> <p>ADB review missions</p> <p>Postprogram evaluation</p> <p>Stakeholder consultations</p>	<p>Government sustains commitment to institution building and policy reform</p> <p>Technical assistance is implemented effectively</p> <p>Market reforms proceed smoothly</p> <p>Community-based resource management works effectively</p>
<p><b>Outputs</b></p> <p>Sound policy and planning framework developed</p> <p>Efficient and effective sector institutions created</p> <p>Capacity built for management and planning in key natural resource areas</p> <p>Comprehensive land policy and land titling system developed</p>	<p>Agriculture sector growth rate accelerates</p> <p>Administrative and support functions more effective</p> <p>Irrigation system efficiency and sustainability of natural resource use improves</p> <p>Land use equity and efficiency improve</p>	<p>ADB program completion report</p> <p>Government promulgations / acts / decrees</p> <p>ADB review missions</p> <p>Tripartite meeting</p> <p>Aid agency reports</p> <p>Stakeholder workshop</p>	<p>Government commitment to the reform process</p> <p>External assistance (especially from World Bank, IMF, EU and major bilateral services) in governance and the financial sector, transport and energy is appropriate and forthcoming</p> <p>Risk: Government unable to implement agreed-upon reforms</p>

Design Summary	Performance Indicators/ Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Five-year irrigation investment program developed</p> <p>Strategy and action plan for greater commercialization of agriculture prepared</p> <p>Efficiency of sector support services improved</p> <p>Efficiency of agricultural commodity markets improved</p> <p>SOE restructuring plans prepared</p> <p>(See policy matrix for details)</p>	<p>Economically and socially viable irrigation projects identified</p> <p>Private investment in agriculture increased and poppy cultivation reduced</p> <p>Access to rural finance and modern technology improves</p> <p>Interregional price differentials reflect reasonable margins; trade volumes increase</p> <p>SOE operations become more efficient</p>		
<p><b>Activities</b></p> <p>Preparation and Government approval of priority policy reforms, institutional and organizational frameworks, strategies, and time-bound action plans.</p> <p>(Specific reform measures are detailed in the policy matrix)</p>	<p><b>Start:</b> October 2003</p> <p><b>Complete:</b> 31 July 2005</p> <p><b>Responsible:</b> Cabinet. EA: MOF IAs: MOF, ARCSC, MAAH, MIWRE, MRRD, MLIFS, MOC, and DAB</p>	<p>TA progress reports</p> <p>ADB review missions</p> <p>Tripartite meetings</p> <p>Aid agency reports</p>	<p>Risk: volatile political situation</p> <p>Risk: unpredictable security situation</p> <p>Risk: adjustment costs higher than ADB anticipated, necessitating a waiver or revision of certain conditionalities</p>
<p><b>Inputs</b></p> <p>ADB Agriculture Sector Program Loan</p>	<p><b>Resources</b></p> <p>1st tranche: \$30 million</p> <p>2nd tranche: \$20 million</p>	<p>ADB disbursement records</p>	<p>Advisors under TA 3875-AFG, the piggybacked TA, and other funding agency-financed TA together with AFRM to monitor the reform program closely</p>

ADB = Asian Development Bank, AFRM = Afghanistan Resident Mission, ARCSC = Administrative Reforms and Civil Service Commission, DAB = Da Afghanistan Bank, EA = Executing Agency, EU = European Union, IAs = implementing agencies, GDP = gross domestic product, IMF = International Monetary Fund, MAAH = Ministry of Agriculture and Animal Husbandry, MIWRE = Ministry of Irrigation, Water Resources and Environment, MLIFS = Ministry of Light Industry and Foodstuffs, MOC = Ministry of Commerce, MOF = Ministry of Finance, MRRD = Ministry of Rehabilitation and Rural Development, SOE = state-owned enterprise, TA = technical assistance.

## DEVELOPMENT POLICY LETTER



28 March 2004

H.E. Tadao Chino  
 President  
 Asian Development Bank  
 Manila, Philippines

Dear President Chino,

On behalf of the Transitional Islamic State of Afghanistan, I would like to thank you for the Asian Development Bank's (ADB) vision and leadership in assisting Afghanistan's rehabilitation and reconstruction. ADB's bold commitment at the Tokyo Donors Conference in January 2002 to provide \$500 million in concessional assistance by June 2004 undoubtedly encouraged other members of the international community to step forward with generous financial commitments of their own. As we discussed a few months ago in Dubai, it is critical that ADB make every effort to ensure that the commitments it has made to Afghanistan are fulfilled within the envisaged time frame. I also trust and expect that ADB will show similar vision and leadership in announcing its pledge at the Berlin Conference later this month.

In return, I can assure you that the assistance we have received thus far is operational and facilitating progress toward macroeconomic stability and structural reform. In particular, the economy has shown strong signs of recovery over the past two years. Real GDP (excluding opium production) is estimated to have grown 20-30% per annum, driven by rehabilitation activities and favorable rains, while prices have remained stable following the successful completion of a currency conversion early last year. In addition, I note with great satisfaction the passage last year of the Central Bank Law and the Banking Law, which was supported through the ADB-financed Postconflict Multisector Program Loan (PMPL). As a result of efforts such as these, both the first and second tranches under the loan were released on time.

Despite these encouraging developments, Afghanistan will continue to require substantial international assistance in the coming years to facilitate continued stability, recovery, and growth. As presented in our recent report, "Securing Afghanistan's Future," we estimate that nearly \$30 billion in external financing will be needed over the next 7 years to achieve our rehabilitation and growth objectives. Although external assistance has been sizable, a comparison of per capita aid levels with other recent post-conflict countries suggests that aid flows to Afghanistan up to this point have been relatively low. Continued strong support from the international community will be needed not only to help our economy recover, but also to avoid a reversion to violence and the production of opium, as evidenced by the reemergence of poppy cultivation and the continuing difficulties in the security situation. In doing so, it will be important to ensure that Afghanistan's debt is sustainable over the medium term, and that future generations are not unduly and unfairly burdened. Development assistance must therefore continue to be provided on highly concessional terms.

The time is now opportune to broaden implementation of our National Development Framework (NDF), particularly Pillar 2 relating to physical reconstruction and natural resource

management. In this context, the Government is taking the initiative to introduce policy, institutional, and organizational reforms to rehabilitate the agriculture sector and strengthen its capacity for natural resource management. With sound water resource management and the introduction of sustainable resource management practices in other areas, we believe that the agriculture sector can be revitalized to its former strength and put on a path of accelerated growth. More than any other sector, agriculture is at the core of economic recovery and poverty reduction given that more than 80% of the Afghan people are dependent on farming and other rural-based activities for their livelihoods. The sector has suffered badly as a result of the civil conflict and drought, but it must be revived rapidly and in a sustainable manner if deeper inroads are to be made in reducing poverty.

The proposed Agriculture Sector Program is therefore a very timely joint initiative of the Government and ADB. The Government has formulated the Program as described below through intensive dialogue with ADB and active participation of other stakeholders and development partners. The Program addresses the key policy, institutional, and organizational constraints to the efficient and effective functioning of agriculture and the sustainable use of natural resources. As was the case with the PMPL, program monitoring and implementation will be supported by the activities of ADB-funded advisors working in the concerned ministries and departments under capacity-building technical assistance (TA) initiated in 2002–2003 and through the TA piggybacked to the loan. The Program's proposed reform measures are described below, and are also set out in the policy matrix attached to this letter.

In providing financial support for the proposed Program, we recommend a loan amount of \$55 million on concessional Asian Development Fund (ADF) terms. As you are aware, ADF loan terms for the PMPL and Emergency Infrastructure Reconstruction and Rehabilitation Project were modified on an exceptional basis to increase loan concessionality and reduce the debt burden to a more manageable level. Our situation remains extremely difficult, as evidenced by the pervasive poverty in the countryside and the continuing challenges we face in nation building and forging a national identity. In light of these challenges, it remains difficult for many Afghans to foresee the economic basis to support an increased debt burden. Continued access to ADF loan funds at these modified terms therefore remains essential for us to maintain the political consensus necessary to borrow from ADB.

### **Sector Policy Framework and Institutions**

In order to develop a sound policy and planning framework for agriculture and natural resource management, we must forge a common vision for the development of the sector. The key sector ministries—the Ministry of Agriculture and Animal Husbandry (MAAH), Ministry of Irrigation, Water Resources and Environment (MIWRE), and Ministry of Rural Rehabilitation and Development (MRRD)—have prepared a joint statement outlining key priorities, strategies and policies for reviving agricultural growth and promoting sustainable natural resource management. The statement clarifies the respective roles of the public and private sector in the development process together with the specific functions and responsibilities of each sector ministry. The sector strategy and framework embodied in the joint statement is anchored in the NDF and the technical annex on natural resource management in “Securing Afghanistan’s Future,” and is aimed at creating a vibrant, export-oriented and private sector led agricultural sector. The core sector ministries will now proceed to prepare time-bound plans setting out key milestones in the implementation of the sector framework.

While considerable progress has been made over the past 2 years in rehabilitating core central government facilities and restoring basic operations, we recognize that the institutional capacity of our sector ministries to undertake public functions and deliver services remains a serious constraint on agricultural development and sustainable natural resource management.

Moreover, the historical roles and functions of MAAH, MIWRE, and MRRD are not appropriate to delivering sustainable and efficient use of natural resources, particularly of water, or to carrying out the more decentralized institutional approach envisaged in our NDF. Therefore, the core agricultural ministries must develop a new vision of their future role encompassing a fundamental restructuring of their institutional structures and mandates if they are to be successful in leading the recovery and reconstruction efforts in the sector. The Public Administration Reform and Economic Management program in the NDB approved in March 2003 provides the strategic framework for the administrative and organizational reforms.

Institutional restructuring and reorganization of the sector ministries has already been initiated through the work of the Administrative Reforms and Civil Service Commission (ARCSC). MAAH, MIWRE, and MRRD have now obtained approval for stage 1 of their Priority Reforms and Restructuring (PRR) for key departments. This is being followed by the preparation of time-bound implementation plans for their reform and restructuring to secure stage 2 approval of their PRR proposals. Simultaneously, time-bound action plans are being prepared to strengthen the field offices of the core sector ministries, with implementation to begin later this year. Studies have also been initiated to assess the human resources and institutional development needs of both the central ministries and field offices, which will be followed by the formulation of time-bound action plans. In addition, the Government recognizes that there are overlapping mandates and functions among the sector ministries. In this connection, ARCSC will prepare a plan to consolidate the sector ministries and reduce the number of their departments within the coming year.

The Government is also continuing with efforts to improve fiscal management and transparency in the sector ministries. To this end, MAAH, MIWRE, and MRRD prepared and submitted detailed recurrent and development budget plans for SY1383. The Government will work to ensure that their future budget submissions are consistent with their reform and restructuring plans, and that they continue to receive sufficient budgetary allocations to carry out their new mandates.

### **Natural Resource Management**

As the repeated droughts in Afghanistan and dependence on food aid indicate, water is by far our most precious resource, and thus must be managed in a judicious and sustainable manner. MIWRE has initiated a comprehensive water resources assessment, which includes efforts to build a water resource database and hydrological networks, in order to improve the information base for our future planning efforts. These activities are also paving the way for the formulation of an interim water policy, which will be submitted shortly to the Cabinet for its approval, and subsequent reform of the 1981 Water Law. River basins are among our most important natural resources, and their sustainable management for irrigation and power generation is critical to the prosperity of the country. International experience has shown that river basin organizations are the best instrument for managing water resources, and MIWRE has initiated pilot studies toward the establishment of at least two such organizations before the end of 2004. International experience has also shown that operation and maintenance as well as management of irrigation systems is best done by the water users themselves, which MIWRE has adopted as a guiding principle in formulating its irrigation investment program. MIWRE will also develop a strategy to develop and manage our groundwater resources, which could serve as an important safeguard during times of drought.

Assessment studies have also started with regard to livestock, and forestry and rangeland resources. Livestock are an integral part of traditional farming systems in Afghanistan, but herds have been decimated in recent years by drought and disease. A livestock inventory has already been completed and MAAH has initiated an assessment study

as an input into the formulation of a livestock development strategy. MAAH will also establish a livestock database and monitoring system to facilitate future planning activities in the subsector. Forests and rangelands also play a vital role in rural livelihoods, but have been severely degraded over the past few decades. MAAH is carrying out a resource inventory and assessment that will provide a basis for establishing a database and monitoring system as an interim step toward developing a comprehensive policy on forestry and rangeland management. The draft policy will be submitted to Cabinet and a public consultation process initiated on it in the coming year. Ongoing work developing environmental protection legislation will also be carried forward under the Program. In this connection, MIWRE has prepared an initial draft of an Environmental Protection Act that is currently under review. The draft legislation will subsequently be revised and submitted to Cabinet for approval by the end of this year.

Efficient and productive use of land depends on clear and unambiguous land titles. We must develop a policy and institutional framework through which land-use efficiency and equity will be improved. This will be addressed under the Program through the development of a comprehensive national land policy and titling system that is fair, efficient, and sustainable. The objective in this regard will be to create a system that (i) increases tenure security for farmers and other landholders; (ii) facilitates efficient land transactions and administration; and (iii) provides farmers and other landholders with greater control over land management through a full range of market choices.

To this end, I wish to inform you that a high-level commission has been appointed to develop a comprehensive land policy. The commission, which comprises the MAAH (chair); Ministry of Finance (MOF); Ministry of Mines and Industry; MRRD; MIWRE; and the Department of Cadastral Survey under the Office of the President will be charged with the task of developing a draft land policy for submission to Cabinet within the coming year. In parallel, an interministry working group has also been appointed and has initiated studies to identify an appropriate institutional framework for land administration. We expect that the working group will be able to formulate a strategy and time-bound action plan for an appropriate land titling system and land database within the coming year. Given their importance, the Directorate of Land in MAAH and the Department of Cadastral Survey under the Office of the President together with all the relevant ministries are working jointly on these endeavors.

### **Sector Investment Program**

We recognize the need to develop sound sector investment programs, particularly in the water resources sector, upon which future increases in agricultural productivity will primarily depend. The bulk of our irrigation facilities have been seriously damaged, with overall system efficiency rated at only 25%. MIWRE with the assistance of ADB and other development partners has initiated work toward identifying economically viable investment options for irrigation development and rehabilitation, drawing on the results of the irrigation system inventory. Work has been initiated to develop a program for rehabilitation of medium- and large-scale irrigation schemes, and selection criteria developed taking into account land ownership and titling considerations as well as an equitable distribution of benefits along gender lines. MIWRE is also developing screening procedures to ensure that the proposed development program is consistent with the safeguard policies of the multilateral financial institutions. It has also been agreed that MIWRE will develop procedures for the transfer of ownership and management of irrigation facilities to water users.

The future of agriculture in Afghanistan depends on enterprise diversification and greater commercialization. This will require the promotion of high-value crops and livestock enterprises, for which adoption will need effective regulatory frameworks, efficient marketing systems, and very active participation of the private sector. This is important not only to raise farm incomes



and reduce rural poverty, but also is an important alternative to the resurgence of opium production. While interdiction efforts will have to become more effective, efforts to identify investment opportunities in high-value cash crops and agro-based industries as alternatives to poppy cultivation must also be stepped up. MAAH, the Ministry of Light Industry and Foodstuffs (MLIFS), and the Ministry of Commerce (MOC) have initiated studies on the options available to facilitate greater commercialization of agriculture, particularly through the development of horticultural crops. This will include a review of the enabling environment for private sector participation in agricultural activities as well as agronomic and financial assessments of promising alternative crops. Strategies and time-bound action plans to promote greater commercialization of agriculture and identify livelihood alternatives to poppy cultivation will be developed based on the results of these studies.

### **Sector Support Services**

The Government recognizes that efficient and cost-effective support service systems are also essential for raising on-farm productivity. Our national Agricultural Research and Technology Transfer System (ARTTS) is largely nonfunctional after two decades of civil conflict. While Afghan farmers are generally aware of the benefits of modern agro-inputs, the present input delivery system lacks effective quality assurance and certification systems, as well as a regulatory framework for agricultural inputs. Development of effective quality assurance and certification systems will also be necessary on the output side if our agricultural produce is to gain entry to overseas markets. To address these constraints, studies have been initiated to identify appropriate input and output certification and quality assurance systems, the institutional requirements for a regulatory framework for agricultural inputs and outputs, and the options for establishing an efficient and cost-effective ARTTS. Recommendations and time-bound implementation plans will be developed based on the results of these studies. MAAH has also initiated work on a modern seed law, and will develop a strategy and time-bound action plan for establishing a national seed bank in order to preserve the indigenous gene pool.

In a society that has lost most of its personal savings and assets, developing access to credit will be a crucial element in reviving agricultural growth. Access to short-term finance in particular will be key if farmers are to afford quality seeds and fertilizer. While a mechanism has been established for microcredit through the Microfinance Investment and Support Facility and NGOs operate various credit programs, their coverage is limited and does not meet the full spectrum of rural credit needs. Moneylenders and *hawala* traders also provide some finance, but at very high interest rates. In light of this institutional gap, the MOF in association with Da Afghanistan Bank (DAB) and MRRD has initiated rural finance assessment studies to identify institutional options to meet rural credit needs. Time-bound action plans will be developed to implement the recommendations that emerge from the studies. Gender-specific constraints and opportunities for accessing credit will also be addressed in this context.

### **Agricultural Commodity Markets**

Efficient agricultural commodity markets are another essential precondition for the development of a competitive, export-oriented agricultural sector. A key policy objective under the Program is to improve the efficiency of agricultural commodity markets. In this context, I wish to confirm the Government's intent under the Program (i) to remove all legal and institutional restrictions on the movement of agricultural commodities (including inputs) except those related to standard tariffs, phytosanitary conditions, environmental protection and control, and drug trafficking; (ii) not to introduce government subsidies or price supports on agricultural products; and (iii) to remove all formal and informal restrictions on private sector participation in agricultural activities, including production, processing, marketing, and external trade.

A large share of agricultural production in Afghanistan takes place in areas that are relatively inaccessible and remote from market outlets and input supplies. In particular, the network of farm-to-market roads and the agricultural marketing infrastructure have been badly degraded by 25 years of civil conflict. The isolation of farming communities raises production costs, lowers farm income, and perpetuates rural poverty. MAAH has initiated studies to identify options to improve integration of agricultural markets, including the strengthening of farm-to-market linkages. A strategy and time-bound action plan will be prepared to improve integration of agricultural markets based on the results of the studies. In the interim, we are moving ahead with a reconstruction program for farm-to-market roads.

### **State-Owned Enterprises**

Consistent with the policy enunciated in the NDF, the Government is firmly committed to restructuring its state-owned enterprises (SOEs), including divestment of its ownership stake. Accordingly, an inventory of SOEs has been published and time-bound restructuring plans for agricultural SOEs under the control of MAAH and MLIFS will be prepared to carry forward our commitments in this regard. To facilitate implementation of these plans, the Government will develop a strategy and procedures for restructuring and divestment of SOEs, which will include provisions for market valuations of assets to ensure that the process is transparent and fair, maximizes returns to the Government, and facilitates private sector investment. To signal the Government's strong commitment to SOE restructuring, we have dissolved the Agriculture Development Bank and initiated divestment of the Fertilizer Trading Company. The Government has also initiated work to commercialize the operations of the Improved Seed Enterprise and Helmand Valley Construction Company.

### **Conclusion**

I wish to reaffirm our request for ADB to proceed with its financial support for the proposed Agriculture Sector Program. I appreciate the consultative approach adopted by ADB in preparing the policy reform agenda and can state unequivocally that Government ownership of the proposed program is very strong. Given our close association with ADB officials, and our frequent exchanges on sector policies and strategies, we were able to quickly conclude negotiations on a mutually agreed policy matrix. The extensive consultation that has taken place during Program preparation also ensures that ADB's assistance is well coordinated with the activities of our other development partners.

I am pleased to inform you that the Government has moved on several fronts over the past few months with respect to policy and institutional reforms in the agriculture sector. Accordingly, we have been able to achieve all the first tranche conditions included in the attached policy matrix. All relevant documentation and other supportive evidence to substantiate this have been provided to ADB. The envisaged comprehensive agriculture sector reform program is an outcome of the close cooperation between the Transitional Islamic State of Afghanistan and ADB. I trust that ADB will approve the loan expeditiously and that our partnership will continue to deepen in a most favorable and constructive manner.

Yours Sincerely



Ashraf Ghani  
Minister of Finance

## AGRICULTURE SECTOR PROGRAM: POLICY MATRIX

Policy Objectives	Actions Prior to First Tranche Release (tranche release conditions are in bold)	Actions Prior to Second Tranche Release (tranche release conditions are in bold)
Program goal: Promote agricultural growth and poverty reduction through support for market-based policy reforms, formulation of public infrastructure investment programs, and institutional reform and organizational capacity building.		
Program purpose: Enhance opportunities for sector revival by addressing key policy, institutional and organizational constraints to the efficient and effective functioning of agriculture and the sustainable use of natural resources.		
<b>A. Sector Policy Framework and Institutions</b>		
1. Develop a sound policy framework and establish efficient sector institutions.		
1.1 Prepare an agricultural and natural resource management strategy and policy framework.	<ul style="list-style-type: none"> <li>• <b>MAAH, MIWRE, and MRRD shall have prepared a joint statement outlining key priorities, strategies, and policies for reviving agricultural growth and promoting sustainable use of natural resources.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>MAAH, MIWRE, and MRRD shall have prepared time-bound action plans for implementing the agriculture sector strategy and policy framework.</b></li> </ul>
1.2 Rehabilitate and restructure sector ministries.	<ul style="list-style-type: none"> <li>• MAAH, MIWRE, and MRRD shall have completed initial rehabilitation and restoration of their core facilities to support basic operations.</li> <li>• <b>MAAH, MIWRE, and MRRD shall have submitted applications for approval of stage 1 of their Priority Reforms and Restructuring (PRR) for key departments.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>ARCSC shall have approved the stage 1 and 2 PRR proposals for concerned departments of MAAH, MIWRE, and MRRD.</b></li> <li>• <b>ARCSC shall have prepared a plan for consolidating the agriculture sector ministries and reducing the number of their departments.</b></li> </ul>
1.3 Develop capacity building and training programs.	<ul style="list-style-type: none"> <li>• MAAH, MIWRE, and MRRD shall have initiated studies to assess their human resources and institutional development needs, including in their field offices.</li> </ul>	<ul style="list-style-type: none"> <li>• MAAH, MIWRE, and MRRD shall have prepared time-bound action plans for capacity building based on the needs assessment.</li> </ul>
1.4 Improve fiscal management and transparency.	<ul style="list-style-type: none"> <li>• <b>MAAH, MIWRE, and MRRD shall have submitted to MOF recurrent and development budgets for SY1383.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>MAAH, MIWRE, and MRRD shall have submitted recurrent and development budgets for SY1384 to MOF in line with their reform and restructuring plans approved by ARCSC.</b></li> </ul>
1.5 Strengthen field offices of MAAH, MIWRE, and MRRD.	<ul style="list-style-type: none"> <li>• MAAH, MIWRE, and MRRD shall have initiated preparation of time-bound action plans for phased strengthening their field offices.</li> </ul>	<ul style="list-style-type: none"> <li>• MAAH, MIWRE, and MRRD shall have initiated implementation of the action plans to strengthen their field offices, including budgeting of adequate resources.</li> </ul>
<b>B. Natural Resource Management</b>		
2. Introduce management systems for sustainable use of natural resources.		
2.1 Build capacity for management and planning in key resource areas.	<p><b>Water Resources</b></p> <ul style="list-style-type: none"> <li>• MIWRE shall have initiated a comprehensive water resource assessment, including requirements for a water resource database and hydrological network.</li> <li>• MIWRE shall have initiated work on an interim water policy.</li> <li>• MIWRE shall have initiated activities to develop pilot river basin organizations.</li> </ul>	<ul style="list-style-type: none"> <li>• MIWRE shall have initiated establishment of a water resource database and hydrological network.</li> <li>• <b>MIWRE shall have completed a strategy for groundwater development and management.</b></li> <li>• <b>MIWRE shall have initiated reform of the 1981 Water Law based on the interim water policy and following public consultation.</b></li> <li>• MIWRE shall have initiated establishment</li> </ul>

Policy Objectives	Actions Prior to First Tranche Release (tranche release conditions are in bold)	Actions Prior to Second Tranche Release (tranche release conditions are in bold)
	<p><b>Livestock</b></p> <ul style="list-style-type: none"> <li>MAAH shall have initiated a livestock inventory and assessment study.</li> </ul> <p><b>Forestry and Rangeland Resources</b></p> <ul style="list-style-type: none"> <li>MAAH shall have initiated a forestry and rangeland resource inventory and assessment study.</li> <li><b>MAAH shall have indicated its commitment to develop a comprehensive policy on forest and rangeland management.</b></li> </ul> <p><b>Environmental Protection</b></p> <ul style="list-style-type: none"> <li><b>MIWRE and MAAH shall have initiated work on an Environmental Protection Act (EPA).</b></li> </ul>	<p>of at least two pilot river basin organizations.</p> <ul style="list-style-type: none"> <li>MAAH shall have established a livestock database and monitoring system, and formulated a livestock development strategy.</li> <li>MAAH shall have established a forest and rangeland database and monitoring system.</li> <li><b>MAAH shall have submitted to Cabinet and initiated public consultation on a draft forest and rangeland management policy.</b></li> <li><b>Cabinet shall have approved the draft EPA.</b></li> </ul>
2.2 Develop a comprehensive land policy and titling system.	<ul style="list-style-type: none"> <li><b>Government shall have appointed a high-level commission to prepare a comprehensive land policy, including on public lands.</b></li> <li>An interministerial working group shall have initiated studies on an appropriate institutional framework for land administration.</li> </ul>	<ul style="list-style-type: none"> <li><b>The high-level commission shall have submitted to Cabinet and initiated public consultation on the draft land policy.</b></li> <li>The interministerial working group shall have formulated a strategy and time-bound action plan for an appropriate land titling system and land database.</li> </ul>
<b>C. Sector Investment Program</b>		
3. Develop sound programs for sector investment.		
3.1 Develop an irrigation investment program.	<ul style="list-style-type: none"> <li>MIWRE shall have initiated preparation of an investment program for irrigation development taking into account i) economic viability; ii) land ownership and titling; iii) social and environmental safeguards; iv) gender participation; and v) the scope for turnover of irrigation schemes to users.</li> </ul>	<ul style="list-style-type: none"> <li>MIWRE shall have prepared a 5-year investment program for irrigation schemes, including transfer of ownership and management of irrigation facilities.</li> </ul>
3.2 Promote greater commercialization of agricultural production.	<ul style="list-style-type: none"> <li>Government shall have initiated studies on commercial development of horticulture crops and agro-based industries.</li> </ul>	<ul style="list-style-type: none"> <li>Government shall have prepared strategies and time-bound action plans to promote greater commercialization of agriculture</li> </ul>
3.3 Promote livelihood alternatives to poppy cultivation.	<ul style="list-style-type: none"> <li>Government shall have confirmed its commitment to promote drug competing crops and other rural-based activities.</li> </ul>	<ul style="list-style-type: none"> <li>MAAH and MRRD shall have developed strategies and time-bound action plans to promote livelihood alternatives to poppy cultivation.</li> </ul>
<b>D. Sector Support Services</b>		
4. Improve the efficiency of sector support services.		
4.1 Assess the state of rural finance.	<ul style="list-style-type: none"> <li>Government shall have initiated rural finance assessment studies to identify institutional options to meet rural credit needs.</li> </ul>	<ul style="list-style-type: none"> <li>Government shall have prepared time-bound action plans to implement the recommended options to meet rural credit needs.</li> </ul>

Policy Objectives	Actions Prior to First Tranche Release (tranche release conditions are in bold)	Actions Prior to Second Tranche Release (tranche release conditions are in bold)
4.2 Establish certification and assurance systems for agricultural inputs and outputs.	<ul style="list-style-type: none"> <li>Government shall have initiated studies on appropriate agricultural input and output certification and quality assurance systems.</li> <li>MAAH shall have initiated studies on the institutional requirements for a regulatory framework for agricultural inputs and outputs.</li> </ul>	<ul style="list-style-type: none"> <li>Government shall have prepared time-bound action plans to establish the input and output certification and quality assurance systems.</li> <li>MAAH shall have prepared a strategy and time-bound implementation plans for establishing the regulatory framework for agricultural inputs and outputs, and for establishing a national seed bank.</li> <li>Cabinet shall have approved the seed law.</li> </ul>
4.3 Develop an efficient and cost-effective ARTTS.	<ul style="list-style-type: none"> <li>MAAH shall have initiated studies setting out options for establishment of an efficient and cost-effective ARTTS, including for post-harvest technology.</li> </ul>	<ul style="list-style-type: none"> <li>MAAH shall have prepared time-bound action plans to implement the recommended options for an efficient and cost-effective ARTTS.</li> </ul>
<b>E. Agricultural Commodity Markets</b>		
5. Improve the efficiency of agricultural commodity markets.		
5.1 Remove restrictions on movement of agricultural commodities.	<ul style="list-style-type: none"> <li><b>MOF shall have confirmed its intent to remove all legal and institutional restrictions on the movement of agricultural commodities (including inputs) except those related to standard tariff and phytosanitary conditions, environmental protection and control, and drug trafficking.</b></li> </ul>	<ul style="list-style-type: none"> <li><b>MOF shall have submitted to Government a time-bound action plan for removal of all legal and institutional restrictions on the movement of agricultural commodities (including inputs), except for those related to standard tariffs, phytosanitary conditions, environmental protection and control, and drug trafficking.</b></li> </ul>
5.2 Abstain from introducing subsidies or price supports on agricultural products.	<ul style="list-style-type: none"> <li><b>MOF shall have confirmed its intent not to introduce government subsidies or price supports on agricultural products.</b></li> </ul>	<ul style="list-style-type: none"> <li><b>MOF shall maintain its policy of no subsidies or price supports for the duration of the Program.</b></li> </ul>
5.3 Promote private sector participation in agricultural marketing.	<ul style="list-style-type: none"> <li><b>MOF shall have confirmed its intent to remove all formal and informal restrictions on private sector participation in agricultural activities, including production, processing, marketing, and external trade.</b></li> </ul>	<ul style="list-style-type: none"> <li><b>MOF shall have submitted to Government a time-bound action plan for liberalization of the agriculture sector, including removal of restrictions on private sector participation in agricultural activities.</b></li> </ul>
5.4 Improve integration of agricultural commodity markets.	<ul style="list-style-type: none"> <li>MAAH shall have initiated studies to improve integration of agricultural markets, including farm-to-market linkages.</li> </ul>	<ul style="list-style-type: none"> <li>MAAH shall have prepared a strategy and time-bound action plan to improve integration of agricultural markets.</li> </ul>
<b>F. State-Owned Enterprises</b>		
6. Restructure SOEs.		
6.1 Restructure agricultural SOEs.	<ul style="list-style-type: none"> <li>Government shall have published an inventory of all its SOEs.</li> <li><b>MAAH and MLIFS shall have confirmed their intent to restructure their agricultural SOEs, including divestment.</b></li> <li><b>MAAH shall have initiated divestment of the Fertilizer Trading Company.</b></li> <li><b>Government shall have dissolved the Agricultural Development Bank.</b></li> <li><b>MAAH and MIWRE shall have initiated commercialization of the Improved Seed Enterprise and Helmand Valley Construction Company.</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Government shall have developed procedures for restructuring and divestment of SOEs.</b></li> <li><b>MAAH and MLIFS shall have submitted to Cabinet time-bound restructuring plans for their agricultural SOEs, including divestment.</b></li> <li><b>MAAH shall have completed divestment of the Fertilizer Trading Company.</b></li> <li><b>MAAH and MIWRE shall have completed commercialization of the Improved Seed Enterprise and Helmand Valley Construction Company.</b></li> </ul>

ARTTS = Agricultural Research and Technology Transfer System, MAAH = Ministry of Agriculture and Animal Husbandry, MIWRE = Ministry of Irrigation, Water Resources and Environment, MLIFS = Ministry of Light Industry and Foodstuffs, MOF = Ministry of Finance, MRRD = Ministry of Rehabilitation and Rural Development, SOEs = state-owned enterprises.

## DEVELOPMENT COORDINATION MATRIX

Institution Building and Reform Agenda	Provider
<b>A. Sector Policy and Planning Framework</b>	
Agricultural and natural resource management strategy and policy framework	ADB, FAO, USAID
Rehabilitate and strengthen sector ministries	ADB, CIDA, DFID, GTZ, USAID
Fiscal management and transparency	ADB, USAID, IMF
<b>B. Natural Resource Management</b>	
Water resource assessment and hydrological network	ADB, FAO, World Bank
Water policy	ADB, World Bank
River basin organizations	ADB, EC
Livestock inventory and assessment	ADB, EC, FAO
Forestry and rangeland inventory and policy	ADB, FAO
Environmental protection legislation	ADB, UNEP
Land titling and policy	ADB, DFID
<b>C. Sector Investment Program</b>	
Irrigation investment program	ADB, Abu Dhabi, China, CIDA, EC, FAO, Islamic Development Bank, India, Italy, Japan, Saudi Fund, USAID, World Bank
Commercialization of agriculture	ADB, FAO, Turkey, USAID
Development of livelihood alternatives	ADB, DFID
<b>D. Sector Support Services</b>	
Rural finance	ADB, CGAP, Aga Khan Foundation, France, USAID, World Bank
Certification and quality assurance systems	EC, FAO, USAID, ICARDA
ARTTS	ADB, EC, FAO, USAID
<b>E. Agricultural Commodity Markets</b>	
Restrictions on flow of agricultural commodities	ADB, USAID
Private sector participation in agricultural marketing	ADB, USAID
Integration of agricultural markets	USAID
<b>F. State-Owned Enterprises</b>	
Restructure agricultural SOEs	ADB, FAO, GTZ, Italy, UNDP, USAID

ADB = Asian Development Bank, ARTTS = Agricultural Research and Technology Transfer System, CGAP = Consultative Group to Assist the Poor, CIDA = Canadian International Development Agency, DFID = Department for International Development, EC = European Commission, FAO = Food and Agriculture Organization of the United Nations, GTZ = Deutsche Gesellschaft für Technische Zusammenarbeit, ICARDA = International Center for Agricultural Research in Dry Areas, IMF = International Monetary Fund, SOEs = state-owned enterprises, UNDP = United Nations Development Program, UNEP = United Nations Environment Program, USAID = United States Agency for International Development.

**ADJUSTMENT COSTS**  
(\$'000)

<b>Policy Measure</b>	<b>Total</b>
<b>A. Sector Policy Framework and Institutions</b>	
Strategy and policy framework	571
Rehabilitating and restructuring sector ministries	41,963
Promoting capacity building and training	188
Improving fiscal management and transparency	220
Strengthening field offices	15,748
Subtotal	58,690
<b>B. Natural Resource Management</b>	
Improving natural resource management and planning	26,281
Developing national land titling system	894
Subtotal	27,175
<b>C. Sector Investment Program</b>	
Developing and implementing irrigation investment program	1,318
Promoting greater commercialization of agricultural production	837
Subtotal	2,155
<b>D. Sector Support Services</b>	
Improving rural financial services	436
Establishing input and output certification and assurance systems	1,063
Developing an efficient and cost-effective agriculture research and technology transfer system	541
Subtotal	2,040
<b>E. Agricultural Commodity Markets</b>	
Liberalizing movement of agricultural commodities	300
Removing of input subsidy and price support	0
Increasing private sector participation in agricultural marketing	300
Improving integration of agricultural commodity markets	541
Subtotal	1,141
<b>F. State-Owned Enterprises</b>	
Restructuring agricultural state-owned enterprises	3,315
Subtotal	3,315
<b>Reforms in the Agriculture Sector</b>	<b>94,516</b>

## LIST OF INELIGIBLE ITEMS

1. The proceeds of the loan will be utilized to finance the foreign exchange expenditures for the reasonable cost of imported goods (excluding any duties or taxes) required during the execution of the Program. All imported goods financed from the proposed loans must be produced in, and procured from, the Asian Development Bank member countries.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals will be made from the loan proceeds for the following specified items:

- (i) expenditures for goods included under the following groups or subgroups of the United Nations Standard International Classification, Revision 3, or other successor groups or subgroups under future revision:

Group	Subgroup	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges) nonirradiated, for nuclear reactors
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ores and concentrates)

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods intended for military or paramilitary purpose or for luxury consumption;
- (iv) expenditures for pesticides categorized as extremely hazardous or highly hazardous in classes 1a and 1b, respectively, of the World Health Organization's Classification of Pesticides by Hazard and Guidelines to Classification;
- (v) expenditures for goods supplied or to be supplied under any contract that a national or international financing institution or any other financial agency has financed or agreed to finance, including any contract financed or to be financed under any loan from the Asian Development Bank; and
- (vi) expenditures incurred more than 180 days prior to the effective date.



## SUMMARY TERMS OF REFERENCE AND COST ESTIMATES

1. The technical assistance (TA) will require approximately 36 person-months of international consultants.<sup>1</sup> The TA will provide support to (i) help facilitate program coordination and monitoring; (ii) develop a comprehensive land policy and an appropriate institutional framework for land titling; (iii) assess the human resources needs of the core sector ministries; (iv) assess institutional options to meet rural credit needs; (v) improve the efficiency of agricultural commodity markets; and (vi) develop procedures for restructuring and divesting state-owned enterprises (SOEs). The TA is planned to be implemented over a 14-month period commencing in July 2004. Under the TA, the Asian Development Bank (ADB) will recruit consultants through a firm in accordance with ADB's *Guidelines on the Use of Consultants*. Any procurement will be in accordance with ADB's *Guidelines for Procurement*.

### A. Terms of Reference

#### 1. Senior Policy Advisor (international, 14 person-months)

2. A senior policy advisor will serve as the team leader and will be responsible for the overall management of the TA and the timely delivery of all outputs. The advisor will have two sets of functions. In an administrative role, the advisor will (i) supervise and coordinate the work outputs of the other team members; (ii) liaise with the Executing Agency (EA), the implementing agencies (IAs), and ADB on matters relating to compliance with the tranche conditions of the Program; (iii) monitor the progress of compliance with the tranche conditions of the Program and bring to the attention of the EA, IAs, and ADB any issue that needs to be addressed immediately to facilitate timely compliance; and (iv) prepare a work plan, progress reports, and the final TA report. The senior advisor will work for one continuous term.

3. In substantive terms, the senior advisor will assist the Ministry of Finance (MOF) and the core sector ministries to (i) maintain consistency of activities with the Program's objectives of promoting agricultural growth and poverty reduction through support for market-based policy reforms, public infrastructure investment, and institutional and organizational capacity building; (ii) determine the economic and social impacts of the policy reform measures; (iii) review all policy, legal, and institutional aspects for consistency in promoting program objectives; (iv) ensure that the irrigation investment program is formulated with due regard to social and environmental safeguards and gender considerations; (v) devise measures enhance private sector participation in agricultural research, extension, and education; and (vi) ensure that SOEs are restructured with sufficient emphasis on good governance and financial viability.

#### 2. Land Policy and Titling Expert (international, 8 person-months)

4. The expert will assist (i) the high-level commission in preparing a comprehensive land policy and (ii) the interministry working group in identifying an appropriate institutional framework for land titling and administration (i.e., a system that includes adequate environmental and social safeguards). In doing so, the expert will draw on relevant international experience and lessons learned, incorporate international best practices in land tenure and administration with due regard to equity, environmental, and gender concerns. The expert will also assist the Government in (i) designing and initiating a public consultation process to review

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<sup>1</sup> Preference will be given, where feasible, to the recruitment of expatriate Afghans.

the draft policy once it has been prepared and (ii) designing a timetable and action plan to introduce the land titling and administration system.

**3. Human Resources Expert** (international, 4 person-months)

5. The expert will assist the core sector ministries in (i) assessing their human resources and institutional development needs, including in their field offices, (ii) preparing time-bound action plans based on the needs assessment, and (iii) designing appropriate retrenchment and compensation packages. In doing so, the expert will liaise closely with the team of institutional restructuring experts engaged under the ADB-financed technical assistance cluster (TAC).

**4. Rural Finance Expert** (international, 4 person-months)

6. The expert will assist MOF in preparing time-bound action plans to implement the recommended options to meet rural credit needs. In doing so, the expert will liaise closely with experts engaged by the United States Agency for International Development (USAID) to carry out a rural finance assessment study and assist Da Afghanistan Bank in developing a regulatory framework for the financial sector, as well as other TA experts and nongovernment organizations working in rural finance (e.g., the Aga Khan Foundation and the Microfinance Investment and Support Facility for Afghanistan).

**5. Agricultural Marketing Expert** (international, 4 person-months)

7. The expert will assist MOF and other relevant ministries in preparing time-bound action plans to (i) establish the input and output certification and quality assurance systems; (ii) remove restrictions on the movement of agricultural commodities and inputs; and (iii) remove restrictions on private sector participation in agricultural activities. In doing so, the expert will liaise closely with experts working under the USAID-financed Rebuilding Agricultural Markets in Afghanistan Program and experts engaged under the TAC.

**6. Restructuring and Divesting SOEs** (international, 2 person-months)

8. The expert will assist the Government in developing procedures for restructuring and divesting SOEs, including provisions for market valuations of assets. In doing so, the expert will draw on relevant international experience and lessons learned.

**B. Cost Estimates and Financing Plan**

9. The cost of the TA is estimated at \$1,100,000 equivalent, consisting of \$872,000 in foreign exchange cost and \$228,000 equivalent in local currency cost. ADB will provide \$1,000,000 equivalent to finance the entire foreign exchange cost and \$128,000 equivalent of the local currency cost on a grant basis from the ADB-funded TA funding program. The Government will contribute \$100,000 equivalent in kind. Considering the constrained financial capacity of the Government, the less than required counterpart financing is justified. It is proposed that this requirement be waived. The detailed cost estimates and financing plan are presented in Table A.8.

**Table A.8: Cost Estimates and Financing Plan**  
(\$'000)

<b>Item</b>	<b>Foreign Exchange</b>	<b>Local Currency</b>	<b>Total Cost</b>
<b>A. Asian Development Bank (ADB) Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem, International Consultants	720.0	72.0	792.0
b. International and Local Travel	30.0	5.0	35.0
c. Reports and Communications	2.0	2.0	4.0
2. Equipment <sup>b</sup>	30.0	10.0	40.0
3. Miscellaneous Administration and Support Costs	10.0	10.0	20.0
4. Contingencies	80.0	29.0	109.0
<b>Subtotal (A)</b>	<b>872.0</b>	<b>128.0</b>	<b>1,000.0</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0.0	40.0	40.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	30.0	30.0
3. Others	0.0	30.0	30.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total</b>	<b>872.0</b>	<b>228.0</b>	<b>1,100.0</b>

<sup>a</sup> Financed by ADB's technical assistance funding program.

<sup>b</sup> This includes any office refurbishing that may be necessary.

Source: ADB estimates.

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

### A. Linkages to the Country Poverty Analysis

<b>Sector identified as a national priority in country poverty analysis? Yes</b>	<b>Sector identified as a national priority in country poverty partnership agreement? Not applicable</b>
<p>Contribution of the sector/subsector to reduce poverty in Afghanistan:</p> <p>The proposed program directly supports pillars 2 and 3 of the Government's National Development Framework (NDF), which also serves as the country's poverty reduction strategy. Agriculture and other rural-based activities are the main source of income and employment in Afghanistan, providing livelihoods for nearly 85% of the population. By improving rural livelihoods, the proposed Program will contribute directly to poverty reduction and lead to improvement in a range of other social and economic indicators in Afghanistan.</p>	

### B. Poverty Analysis

**Proposed Classification: Poverty intervention  
Thematic: Economic growth**

<p>No poverty assessment has been prepared and no poverty partnership agreement (PPA) has been signed. Initiating and completing work on the preparation of a PPA will be synchronized with the preparation of a full country strategy and program (CSP), presently scheduled for 2005. Background work for the full CSP, including data collection and preparation of sector roadmaps, was initiated last year.</p> <p>Reliable statistics on poverty are not available for Afghanistan. However, various estimates place the proportion of the population living below the threshold of \$1 a day or consuming below the minimum requirement of the Food and Agriculture Organization of the United Nations (FAO) of 2,453 kilocalories a day per capita at 60–80%. Moreover, the average life expectancy is only about 40 years; nearly two thirds of adults are illiterate, and four fifths of adult women; 70% of the population are malnourished; and in 1999 less than one third of Afghan children were enrolled in school. Particularly vulnerable are those without any source of food production, employment, or income. Nonmaterial poverty as reflected in physical and social insecurity; isolation; marginalization; alienation; and ethnic, religious, and gender discrimination pushes many Afghans further down the poverty ladder.</p> <p>No systematic study has been done on the factors contributing to poverty in Afghanistan, but available information suggests that poverty is associated with low economic growth and the collapse of income-generating and employment opportunities due to the long period of war and civil strife, particularly in rural areas. Other factors likely pertain to the distinctive features of the agro ecological environment (e.g., frequent droughts), state of natural resource degradation, land ownership and tenure, loss of livestock and destruction of orchards, access to water and agricultural inputs, availability of off-farm employment opportunities, refugee/displacement status, gender, ethnicity, household status (e.g., with female head or not, educational attainment), and physical disability.</p>
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### C. Participation Process

<p><b>Stakeholder analysis?</b> The proposed Program was formulated through intensive dialogue with the Government and the active participation of other stakeholders and development partners, in a process that began in early 2002 with ADB's lead role in the multifunding agency Comprehensive Needs Assessment for the Agriculture and Natural Resource Sector. Extensive consultations were undertaken with the concerned line ministries in the course of preparing the needs assessment and during program preparation. Discussions also took place with all major international agencies and funding agencies, and with key nongovernment organizations (NGOs) working in the sector.</p> <p><b>Participation strategy?</b> The NDF signals the Government's commitment to pursuing a broad-based and participatory growth strategy. A number of elements in the Program also seek to make the reconstruction and development process more participatory. These include provisions to transfer management as well as operation and maintenance of irrigation systems to water users, strengthening field offices of the core sector ministries so that they are more responsive to the felt needs at the local level, and reorienting the agricultural research and technology transfer system to be more demand driven and participatory in its approach. Finally, despite enormous security, logistical, and communications constraints, the Government is committed to participatory processes, as reflected in the <i>loya jirga</i> and the public consultations and information sharing being undertaken to prepare the new Constitution.</p>
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**D. Social Safeguards and other Social Risks**

	<b>Significant/ Nonsignificant/ None</b>	<b>Strategy to Address Issues</b>	<b>Plan Required</b>
Resettlement	None	The irrigation investment program to be developed under the Program will focus on rehabilitation of existing systems rather than construction of new systems that might give rise to displacement. No sale of government land as core or noncore assets is envisaged through restructuring of state-owned enterprises (SOEs) .	No
Indigenous Peoples	None	No adverse effects on indigenous peoples are expected. Specific measures to benefit vulnerable tribal groups, traditional livestock herders, and nomadic pastoralists will be taken under the Program. These include provision of equal access to land resources in accordance with ADB's <i>Policy on Indigenous Peoples</i> ; and the integration of customary tenure into the new land policy and policy on forestry and rangeland management.	No plan required, but specific measures will be taken to assist indigenous peoples
Labor	Significant	Employment creation through enhanced on-farm productivity, greater commercialization of agricultural production, promotion of agro-based industry, and greater devolution of agricultural support services, is expected to be significant over the longer term. In the short run, retrenchment of employees through restructuring of sector ministries and agricultural SOEs could result in unemployment. These effects will be mitigated by severance payments and job placement efforts. For example, it is expected that retrenched technical staff from the Agricultural Development Bank will find employment in other commercial banks and nonbank financial institutions.	Procedures developed under the Program for restructuring and divestment of SOEs will incorporate provisions to address retrenchment and other social costs that may arise
Affordability	None	There are at present no formal government subsidies on agricultural inputs or outputs.	No
Other Risks/ Vulnerabilities	Significant	Weak institutional capacity may cause problems in effective service delivery. Significant political and security risks could also slow implementation of the envisaged reforms.	Capacity-building technical assistance is being provided, in close coordination with other aid agencies

## ENVIRONMENTAL ASSESSMENT OF POLICY MATRIX

Policy Intervention	Economic and Social Outcomes	Environmental Impact	Mitigation Measures
<b>Sector Policy Framework and Institutions</b>			
Prepare an agricultural and natural resource management strategy and policy framework.	Economic growth of the agriculture sector; economic savings from avoiding continued degradation of the natural resource base.	Will result in overall improvements in development, management, and conservation of natural resources and lead to sustainable use of resources in agriculture sector.	
Restructure sector ministries; improve their capacity and fiscal management practices.	Savings in time and money from introducing cost effectiveness and efficiency to the core sector ministries; service provision will be better targeted at beneficiaries.	Will improve capacity for coordination, planning, enforcement, and management of agriculture and natural resource sector; improved fiscal management will result in increased efficiency and reliability in allocation of resources to sectors.	
<b>Natural Resource Management</b>			
Improve capacity for planning and management in key areas of resource use and environmental management.	Improved efficiency of resource use will result in growth of respective subsectors and savings due to reduced wastage.	Will improve development and management of key resources and the environment resulting in improvements in efficiency of resource use and reduction in resource exploitation.	
Approval of an Environmental Protection Act (EPA)		Will create legal basis for environmental impact assessment requirements and eventually result in creation of an environmental protection agency.	

## ENVIRONMENTAL ASSESSMENT OF POLICY MATRIX

Policy Intervention	Economic and Social Outcomes	Environmental Impact	Mitigation Measures
Develop a comprehensive land policy and titling system.	Reforms in land titling will ease barriers hindering commercial agriculture, permitting economies of scale in agricultural production. Equity considerations resulting from movement of freehold titles to land away from the marginalized and poor segments of society need to be addressed through adequate social safeguard measures. Land titling will facilitate collateral-based lending.	Increased security over tenure will improve efficiency and effectiveness of land use and land management. Land and other natural resources may be exploited during the transition phase of introducing titling system, due to uncertainty and market failures.	ADB and other TA to support incorporation of appropriate environmental and social safeguards into the land titling and land policy development programs.
<b>Sector Investment Program</b>			
Develop an irrigation investment program including transfer of ownership and management of irrigation facilities to water users.	Improvements to irrigation systems will enhance productivity, create additional employment, ensure greater food security, and increase nutrient intake by the poor. Improvement in water use efficiency due to transfer of ownership to water users will result in increased agricultural productivity, reduced water logging and salinity, and increased contributions from runoff to aquifer recharge.	Formulation of an irrigation investment program could lead to rehabilitation or expansion of irrigation systems that may increase pressure for conversion of protected or ecologically sensitive lands into agricultural production; fertilizer and pesticide use may increase; formulation of an investment program in irrigation infrastructure may lead to activities that have short-term environmental impacts due to degradation of air, water or noise pollution. Long-term impacts may occur if water diversions affect existing users or involve trans-basin diversions.	Integrate screening procedures for environmental and social safeguard compliance into subproject selection and review; the TAC and other assistance is supporting development of capacity in line agencies to undertake such screening procedures, including preparation and implementation of Environmental Management Plans.
Promote greater commercialization of agricultural production, particularly as an alternative to poppy cultivation.	Commercialization will result in growth of the agriculture sector; employment and economic opportunities may increase in agro-processing and other value-added services.	Greater involvement of private sector is likely to improve efficiency of production and reduce wastage of resources such as water; fertilizer use may increase with greater emphasis on high-value crops, but very low levels of application can be expected during program period.	Introduce recommended fertilizer application formulas as part of the agricultural input and output certification system.

## ENVIRONMENTAL ASSESSMENT OF POLICY MATRIX

Policy Intervention	Economic and Social Outcomes	Environmental Impact	Mitigation Measures
<b>Sector Support Services</b>			
Establish a certification system for agricultural inputs and outputs.	Value of agricultural products will increase; wastage and losses during production will decrease; higher quality agricultural products could facilitate entry into export markets.	Will improve agricultural productivity; better quality agricultural inputs will have beneficial environmental impacts; output certification would lead to improved agricultural practices and higher quality outputs.	
Establish an agriculture research and technology transfer system.	Appropriate technology will improve cost effectiveness and efficiency of agricultural production.	Will improve quality, effectiveness, and appropriateness of agricultural techniques, resulting in overall improvements in environmental conditions.	
Assess the state of rural finance and develop an action plan to implement recommendations.	Increased liquidity will improve production technology and result in higher growth and investment in the sector.	Access to credit could encourage adoption of soil conservation measures and transfer of appropriate technology for agricultural productions. An increase in use of fertilizers is likely, but very low levels of application can be expected during Program period.	
<b>Agricultural Commodity Markets</b>			
Remove restrictions on movement, and abstain from introducing subsidies or price support, of agricultural commodities.	There are at present no subsidies on agricultural inputs and outputs. Overall outcome is likely to be a large net efficiency gain, resulting in lower prices for consumers and more remunerative prices for farmers.	Greater availability of commodities could reduce pressure to expand agricultural area; use of chemical fertilizers and pesticides may fall with a corresponding increase in use of a mix of different nutrients including organic fertilizer; efficiency of agriculture input use will increase resulting in overall environmental improvements.	



**ENVIRONMENTAL ASSESSMENT OF POLICY MATRIX**

<b>Policy Intervention</b>	<b>Economic and Social Outcomes</b>	<b>Environmental Impact</b>	<b>Mitigation Measures</b>
Promote private sector participation in and improve integration of agriculture markets.	Will increase efficiency of agricultural commodity markets.	Private sector participation and integration of markets will lead to increased efficiency of production, and a reduction in wastage during production, processing, and transportation.	Develop and enforce guidelines for screening infrastructure projects for Executing Agency requirements. Assist in developing capacity of line agencies to undertake and review Executing Agency procedures including preparation and implementation of Environmental Management Plans.
<b>State-Owned Enterprises</b>			
Restructure agriculture-related state-owned enterprises.	Will improve efficiency of management. Market forces will tend to reduce cost of factor inputs. Fiscal savings will be realized by dissolving or privatizing unprofitable state-owned enterprises.	Overall environmental improvement expected as efficiency of production improves after restructuring and divestiture.	