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REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED DEVELOPMENT CREDIT  
TO  
THE REPUBLIC OF AFGHANISTAN  
FOR A  
SECOND KHANABAD IRRIGATION PROJECT

March 9, 1978

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### CURRENCY EQUIVALENTS

	<u>Calendar 1977</u>	<u>December 1977</u>
Currency Unit	= Afghani (Af.)	
US\$1	= Afs. 46.1	Afs. 43.0
Af. 1	= US\$ 0.02169	US\$ 0.02326

### FISCAL YEAR

March 21 to March 20

Note: A depreciated exchange rate (Afs. 47.5 : US\$ 1) has been used in calculating project costs. See paragraph 50 for detailed explanation.

### GLOSSARY OF ABBREVIATIONS

AgBank	-	Agricultural Development Bank of Afghanistan
AMSCO	-	Agricultural Machines and Services Company
GDADE	-	General Directorate of Agriculture Development and Extension
KEU	-	Khanabad Extension Unit
KIPD	-	Khanabad Irrigation Project Department of the Ministry of Water and Power
WAPCOS	-	Water and Power Development Consultancy Services, Ltd. (India)

AFGHANISTAN

SECOND KHANABAD IRRIGATION PROJECT

CREDIT AND PROJECT SUMMARY

Borrower: Republic of Afghanistan.

Beneficiaries: Khanabad Irrigation Project Department (KIPD), General Directorate of Agriculture Development and Extension in Kunduz (GDADE), Agricultural Development Bank of Afghanistan (AgBank) and Malaria Institute

Amount: US\$22 million.

Terms: Standard IDA.

Relending Terms: Government would on-lend to AgBank amounts required for agricultural credit, estimated at about US\$3.3 million, at 4.5 percent interest repayable over 15 years including 5 years of grace.

Project Description:

The proposed project, a continuation of the first Khanabad Irrigation Project financed by IDA, aims to develop agriculture by rehabilitating and extending existing irrigation and drainage schemes, extending agriculture credit to farmers and providing an efficient extension service. It also aims at controlling malaria in the project area, and includes a feasibility study for a dam about 90 km upstream of the project area for water resources development. It aims to increase agricultural productivity and production on about 41,500 ha and to benefit about 12,000 farm families. Absolute rural poverty level in Afghanistan is currently estimated at US\$84 per capita. After the implementation of the first Khanabad project, 55 percent of the project farmers will still be in absolute poverty. These would be addressed by the proposed project. The project would within 9 years increase average income of owner operators by 40 percent and sharecroppers by 20 percent. A risk exists that the extension service might not become fully effective by 1982 and that there would be some shortfall in the maximum projected yield. The project, however, would still be viable even if an effective extension service were significantly delayed or hampered.

Estimated Costs:

<u>Item</u>	<u>Total</u>	<u>Foreign</u>	<u>Total</u>	<u>Foreign as % of Total</u>
	<u>----(US\$ million)----</u>			
Asqalan and Yanghareq Areas	2.2	2.0	4.2	50
Gostepa and Larkhabi Areas	2.1	1.8	3.9	46
Alchin Terrace	0.6	0.9	1.5	60
Upper Khanabad Area	2.0	2.2	4.2	52
Esantop Pilot Area	-	0.1	0.1	73
Buildings, Equipment and Vehicles	0.4	0.9	1.3	70
Agricultural Extension	0.3	0.7	1.0	69
Training	-	0.2	0.2	90
Feasibility Study for Warsech Dam	0.2	0.7	0.9	80
Malaria Control Program	0.2	0.4	0.6	68
Agricultural Credit	<u>1.4</u>	<u>2.3</u>	<u>3.7</u>	63
Base Cost	9.4	12.2	21.6	57
Physical Contingencies (7%)	0.7	0.8	1.5	50
Price Contingencies (25%)	<u>2.5</u>	<u>3.1</u>	<u>5.6</u>	55
Total	<u>12.6</u>	<u>16.1</u>	<u>28.7</u>	56

Financing Plan:

Government	US\$ 5.58 million
Project Farmers	US\$ 0.38 million
AgBank	US\$ 0.74 million
IDA	<u>US\$22.00 million</u>
Total	<u>US\$28.70 million</u>

Estimated Disbursements:

	IDA	FY	<u>\$ Million</u>				
			<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>
Annual			0.5	3.5	6.0	7.5	4.5
Cumulative			0.5	4.0	10.0	17.5	22.0

Rate of Return: 25 percent

Appraisal Report: Report No. 1703a-AF dated March 1, 1978

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT  
TO THE REPUBLIC OF AFGHANISTAN  
FOR A SECOND KHANABAD IRRIGATION PROJECT

1. I submit the following report and recommendation on a proposed development credit to the Republic of Afghanistan in the equivalent of US\$22 million on standard IDA terms to help finance a second Khanabad irrigation project. The equivalent of US\$3.3 million of the proposed development credit would be relented to the Agricultural Development Bank of Afghanistan for 15 years, including 5 years of grace, with interest at 4.5 percent per annum.

PART I - THE ECONOMY 1/

General

2. A report entitled "Afghanistan: Economic Memorandum (1030-AF)" dated June 7, 1976 has been distributed to the Executive Directors. A basic economic mission visited Afghanistan in April-May 1977 and a draft report was discussed with the Government in December 1977. The final version of the report is currently under preparation. The conclusions of the report are reflected in the following analysis. Country data sheets are attached as Annex I.

Economic Structure

3. Afghanistan is an extremely poor, landlocked economy with severe structural problems. With a population estimated at about 14 million and a per capita income of around US\$160 in 1976, it is one of the largest countries designated as "least developed" by the United Nations. The country's prospects for development are limited by a rugged physical terrain, arid conditions and a paucity of physical and skilled human resources. The adult literacy rate is only about 14 percent and the availability of physicians and hospital beds are one per 12,900 and 5,200 persons, respectively. Agriculture accounts for about half of GNP and engages about 54 percent of the labor force. Nomads constitute an estimated 11 percent of the population, and an estimated 14 percent of the total population live in the cities. Other structural features of the economy are: the low degree of monetization, a low share of government revenues in national income, heavy dependence on foreign assistance for financing the public investment program and the relatively heavy burden of servicing foreign debts.

4. Since the establishment of the Republican Government in July 1973, Afghanistan has made significant economic progress. This has also been accompanied by a degree of political stability which has permitted the Government

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1/ Identical to the corresponding section of the President's Report distributed to the Executive Directors on March 9, 1978 for the Fruit and Vegetable Export Project.

to initiate major socio-economic changes such as land reform and a graduated land tax aimed at agricultural incomes which have been hitherto untaxed. Indicative of the Government's determination to pursue land reforms has been the recent law on survey, settlement, and registration of land which provides for land registration and settlement of disputes and checks tax declaration data. The cadastral survey is continuing and a new department of land reform has been established in the Ministry of Finance.

5. There has been some improvement in public administration particularly in relation to development planning and project implementation (e.g. reorganization of the Ministry of Planning, creation of the semi-autonomous Water and Power Authority which has recently been upgraded as the Ministry of Water and Power). Attempts are also being made to improve the institutional support for the country's export trade. An Export Promotion Bank has been recently established and two international trucking companies established for efficient transport of goods to USSR and continental Europe have also started operations. Some promotional efforts have also been aimed at encouraging private industrial investment (e.g. 1974 General Customs Tariff and 1976 Investment Tariff, small scale industry credit facility at the Industrial Development Bank and improved procedures for approval of such industries). A Seven-Year Development Plan (1976/77 to 1982/83) is currently in the third year of its implementation (see para. 15).

#### Recent Economic Performance

6. Afghanistan's economy suffered a major setback from the droughts in 1970 and 1971 followed by the severe winter of 1971/72 which caused declines in wheat, fruit and livestock production, and especially heavy losses in the livestock population. Since then agricultural output has recovered rapidly due to improved weather conditions and increased use of farm inputs. Agricultural output during the fiscal year 1975/76, particularly wheat and cotton, was at a record level with an estimated increase of 7 percent over 1974/75 which in itself was already a very good crop year. Poor weather conditions, however, resulted in a slowdown in agricultural production in 1976/77. The increase in the food grains crop, the bulk of the agricultural produce, was at a lower rate than in 1975/76 while production of seed cotton, the main cash crop, was the same as in 1975/76. The slowdown in output growth illustrates the continued dependence on variable precipitation and the need for investment in irrigation. The performance in large scale manufacturing in 1976/77 compared to 1975/76 has been mixed. Production of urea has hardly increased, constrained by large factory stocks from 1975/76. Ginned cotton, however, has performed quite well, the estimated rate of increase being about 20 percent. 1/ Although production of cement and sugar have hardly increased, their production levels were at the limit of their current utilizable capacities. 2/ Production of cotton textiles, however, is estimated to have declined

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1/ Although production of seed cotton in 1976/77 remained static at the 1975/76 level, this did not impede ginning operations because of a large backlog of unginmed cotton from 1975/76.

2/ Some of the machinery is very old and sometimes inoperable; machine-rated capacities thus often exceed their utilisable limits.

by about 22 percent; there are demand constraints facing cotton textiles, an export ban and high level of imports encouraged by exchange rate appreciation (see para. 12) have dampened the demand for the domestic textiles.

7. The Bank Group in 1976 conducted a sector survey on industry which reviewed its problems and prospects. 1/ The modern sector is dominated by the public sector with very little private sector participation. The problems of the public sector are, briefly, over-centralization of the management structure, lack of proper financial control, and inadequately trained management personnel. The private sector, which consists almost entirely of import-substituting consumer goods industries, is currently stagnating and is constrained by various practices such as export restrictions on textiles and strict application of income tax regulations without an adequate appeals procedure and a statute of limitations on past liabilities. It is also being hampered by the lack of a clear Government policy on the role of the private sector in industrial development. The findings of the Bank study, including various recommendations of possible policy measures to deal with these problems, have been submitted to the Government. Of late, the Government has shown a greater awareness of the large potential 2/ for private sector industrial investment (see para. 5).

8. Afghanistan during 1976/77 successfully continued its efforts to mobilize domestic resources. Public revenue increased by about 13 percent over the previous year while current surplus increased by about 9 percent over 1975/76, roughly as projected in the budget. Development expenditures, although falling short by about 18 percent over the budgetary estimate of Afs. 14.0 billion, increased no less than 90 percent over the previous year. This reflects the steady improvement in Afghanistan's absorptive capacity. The shortfall in development expenditures did not, however, result in a fall in the budgetary deficit because of a large shortfall in the inflow of foreign aid due to a slowdown in commitments from major donors. 3/ Contrary to the budgetary estimate of about Afs. 9.3 billion of gross foreign aid inflow, actual receipts were about Afs. 5.4 billion. Part of the shortfall in aid receipts was, however, made up through deficit finance of about Afs. 2.9 billion, compared with debt retirement by the Government of about Afs. 0.8 billion during the previous year.

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1/ Industrial Sector Review of Afghanistan, IBRD Report No. 1245-AF.

2/ The forthcoming basic economic report will elaborate on this.

3/ Despite recent improvements, Afghanistan's low absorptive capacity remains a continued concern (see paragraph 14). The slowdown in aid commitments in 1976/77 was not, however, due to a lack of project preparation, rather due to delays on the part of the donors. The Government has partially compensated for it by committing its own resources.

9. Although gross aid receipts in 1976/77 were only 58 percent of the budgeted figures, they still increased by about 16 percent over the previous year's total. This however contrasts sharply with the 40 percent annual growth rate projected in the seven year development plan. Commitments by major aid donors have been very limited in 1976/77 and considerable shortfall in the plan's projections of such commitments is likely. Foreign aid receipts can be expected to be a major constraint on achieving the investment targets of the plan. Additionally, there is evidence that the newer donors are lending on less concessional terms so that the debt service burden may again emerge as a serious problem.

10. The rate of increase in money supply 1/ during 1976/77 has been substantial, about 33 percent; this reflects the effect of a large budgetary deficit (see para. 8) and the increase in foreign assets (see para. 11). There has been, however, no corresponding increase in the prices which are estimated to have increased by only about 3 percent. While significant exchange rate appreciation (see para. 12) helped to keep the prices of imported consumer goods down, the main restraint on prices may have come from a massive volume of hoarding of the domestic currency as pure asset accumulation. It is likely that the effect of the large increase in money supply was not fully reflected in the 1976/77 prices because of both lags and cash hoarding. As lags work through and cash hoardings are run down because of anticipated crop losses, inflationary pressures could emerge and will need to be closely monitored.

11. With regard to foreign trade, export earnings during 1976/77 increased by about 32 percent over 1975/76, compared to only about 2 percent during 1975/76. While export prices increased by about 22 percent, the increase in export volume was 8 percent. About 90 percent of the increase in export earnings came from fruits and nuts and ginned cotton which benefitted from high prices. Simultaneously, imports in 1976/77 also marked a considerable increase over their 1975/76 level due to the rising volume of development expenditures and the effect of continued exchange rate appreciation (see para. 12) on private imports. However, the rate of growth (about 24 percent) was less than the rate for exports so that the trade deficit was reduced from \$42 million to \$33 million in 1976/77. Of the other current account items, interest payments were about \$9 million compared to about \$5 million in 1975/76. The 1976/77 interest payments were, however, still less than their 1974/75 level, reflecting the 1975 rescheduling of the USSR debt. Net foreign aid flows were about \$112 million, compared to about \$94 million in 1975/76 and foreign exchange reserves increased by about \$68 million. Current foreign exchange reserves are about \$241 million, equivalent to about two-thirds of the current annual import flows. Apart from the improving export performance and increasing net aid flows in recent years, the continued rise in foreign exchange reserves also reflect an additional factor - central bank purchases of foreign currency from the "bazaar" (i.e. free foreign exchange market). This has helped to moderate the appreciation of the Afghani resulting largely from sizable remittances by Afghans working abroad.

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1/ Including quasi-money (i.e. time deposits and foreign currency deposits).

During the first half of 1976, the central bank had suspended its buying activities in the "bazaar" and this led to a resumption of the appreciation of the Afghani <sup>1/</sup> during the six months ending September 1976 from Afs. 55: US\$1 to Afs. 40: US\$1. Exports were, however, insulated from this appreciation through export earnings being converted at the rate which prevailed in February 1976, Afs. 56: US\$1. Since September 1976, the central bank has resumed its buying activity in the "bazaar" and by end-March 1977 the "bazaar" rate has increased to Afs. 47: US\$1, as a consequence of purchase of about \$16 million. Simultaneously, however, the central bank has reduced the export exchange rate first to Afs. 50: US\$1, and then in June 1977 to Afs. 48: US\$1. These actions to reduce the spread between the "bazaar" rate (i.e. at which the central bank sells foreign exchange to the private sector) and export exchange rate (i.e. at which it purchases foreign exchange from the private sector), will substantially reduce the budgetary burden which is incurred on this account. Besides the impact on the Government budget, the appreciation of the export exchange rate by about 17 percent could affect export incentives in the longer-term. The IMF is reviewing this question with the Government. There is, however, no evidence yet of any slack in exports. Demand for fruits and nuts and raw cotton constituting more than half of the exports has been particularly buoyant in 1976/77. Recovery of production by competing foreign suppliers and thereby a reversal of the recent high export prices should be anticipated in the near future and a depreciated exchange rate could then become a necessity.

#### Development Prospects and Constraints

13. The large undeveloped human, agricultural and mineral resources of Afghanistan provide the basis for a favorable assessment of the country's long-term development potential. The commitment of the Government to development and economic and social reforms gives rise to hope that this potential can be realized. Recent offers of aid, notably from the Islamic oil producing countries, are likely to increase further the external capital flow into the country in the near future. Although foreign aid receipts during the seven year development plan (see para. 15) may fall short of the target, a substantial acceleration over the levels achieved in recent years may reasonably be anticipated.

14. To realize the development potential of the country, however, requires timely and vigorous action to remove a number of obstacles that severely inhibited the country's economic and social development in the past. Included among these are:

- (a) Inadequacies in project preparation and the resulting shortage of projects to absorb the external economic assistance which was potentially available; and

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<sup>1/</sup> The average bazaar exchange rate for Afghanis to US dollars has increased from Afs. 80.5: US\$1 in 1972/73 to Afs. 47.4: US\$1 in 1976/77.

- (b) inadequacies in public administration and manpower development which have led to inefficient implementation of policies and projects.

The Government is well aware of these problems and has begun to take action to solve them. Particular attention is being given to improving the taxation system. The organizational changes as mentioned in paragraph 5 also indicate this awareness. Much, however, remains to be done and will be focused on in the forthcoming basic economic report.

15. The Government has begun implementing a seven-year development plan (1976/77-1982/83). The plan has an estimated expenditure total of about Afs. 174 billion (\$3.7 billion) <sup>1/</sup> thus envisaging a more than three-fold rise in the average annual development expenditure as compared to 1975/76. The plan aims at an annual rate of growth in GNP of about 6 percent. With population expected to grow at about 2 percent per annum, the per capita income growth is expected to be around 4 percent. However, in its present form the plan is better viewed as a shopping list of projects providing a range of choice to donors than as a feasible program with a well-defined framework for the examination and coordination of policies. Thus the plan probably contains more projects than the country can prepare and implement. Moreover, the projected foreign aid inflow of about \$2.8 billion may be more than can be expected from the major aid donors. The shortfall in external aid cannot be met from domestic resources given the need to increase current expenditures on social services in the plan period.

#### External Debt

16. During the period between 1972/73 and 1976/77 about two-thirds of public investments in Afghanistan have been externally financed with gross aid inflows ranging from about \$60 to \$130 million annually. As of March 31, 1977 Afghanistan's external debt amounted to \$1,748.5 million of which \$911.2 million was disbursed. The major creditors are USSR (62 percent of the total outstanding debt), USA (6 percent), IDA (6 percent), and the Federal Republic of Germany (5 percent). The People's Republic of China and Saudi Arabia, both relatively new creditors, hold 4 percent and 3 percent respectively of the total outstanding debt. Loans from governments account for about 92 percent of all disbursed external public debt. Afghanistan concluded, in July 1972, an agreement with USSR to reschedule \$30.2 million of some \$152.4 million in debt service obligations that were due during 1972/73-1976/77. In addition, in early 1973, USSR agreed to convert some \$16.5 million of loan commitments to grants. In February 1975, an agreement was concluded for the rescheduling of another \$136 million of debt obligation due during 1975/80.

17. With the past emphasis on long-gestation infrastructure projects with little export-generating or import-saving impact, the growth of Afghanistan's debt servicing capacity has been outstripped by the debt-servicing obligations. Thus, although most of the borrowing over the past 20 years was on quite soft

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<sup>1/</sup> At the March 1977 exchange rate of Afs. 47.5 to 1 US dollar which remained the same until June 1977 (see para. 50 below).

terms, the impact of debt service has become heavy and in the recent past had to be mitigated by substantial rescheduling. The debt-service ratio in 1976/77 was 8.3 percent, as against 17 percent in 1974/75, but the decline was entirely the effect of the 1975 rescheduling of the debt-service payments to USSR, the principal lender. Given the country's debt burden, its poverty and its development stage, Afghanistan does not have the capacity to service additional external borrowing on conventional terms. It is also probable that the terms of aid committed and disbursed during the seven year plan period will be less concessionary than earlier anticipated. Accordingly, it is estimated that the debt service ratio would climb to about 21 percent in 1982/83. This raises the probable need for a further rescheduling of debt as happened in 1975. Afghanistan also requires special consideration from external lenders, including IDA, in financing the local costs of development projects, in view of its relatively narrow tax-base and low domestic savings capacity.

#### PART II - BANK GROUP OPERATIONS IN AFGHANISTAN 1/

18. IDA has provided fourteen development credits totalling US\$115 million (net of cancellations) to Afghanistan. IFC invested \$0.3 million in the Industrial Development Bank of Afghanistan (IDBA) in July 1973. However, IDBA has been nationalized and IFC has been fully paid back its investment by the Government. Annex II contains a summary statement of IDA credits and IFC investments as of January 31, 1978, and notes on the execution of the ongoing projects.

19. Bank Group lending in Afghanistan began in 1964 with a \$3.5 million credit (Cr. 68-AF) for an education project, but in July 1970, before any construction took place, a major portion of the credit was cancelled at the request of the Government following education policy changes. A resident mission was established in Kabul in 1969 and since that time, with a considerable input of staff time and effort on project preparation, the Bank Group has provided financial assistance to Afghanistan at an average level of about \$13 million annually. IDA has made six credits totalling \$69 million in the agricultural sector, three credits totalling \$19 million in the transportation sector, one credit of \$2 million for an industrial development bank project, one credit of \$9 million for a water supply project, one credit of \$10 million for a thermal power project and one credit of \$6 million for a second education project. The credits for a Fruit and Vegetable Export Project (\$18 million) and this proposed project (\$22 million) would be the seventh and the eighth for the agricultural sector.

20. Difficulties have been experienced in disbursing the proceeds of the IDA credits made since 1971. The main reasons were substantial delays in fulfilling effectiveness conditions, slow progress with the selection of consultants, minor project changes and, in the case of the Industrial Development Bank (IDBA) Project, a lack of sub-projects. These problems have now

1/ Identical to the corresponding section of the President's Report distributed to the Executive Director on March 9, 1978 for the Fruit and Vegetable Export Project.

been corrected satisfactorily, with the assistance of the Bank's resident mission in Afghanistan, but in the case of the irrigation and livestock projects, the delays incurred aggravated the effect of very heavy inflation on the project costs. Disbursements are now proceeding on a normal schedule. In close cooperation with IDA staff, the Government is trying to remove obstacles to satisfactory project implementation for those projects which are currently being prepared or whose implementation has just started. For instance, a project implementation unit for the Second Education Project was fully established soon after the negotiations, and a project unit has already been established in preparation for the fruit and vegetable export project.

21. The Bank Group's lending strategy recognizes that special efforts are required to help Afghanistan which is among the 29 least developed countries designated by the United Nations. Its landlocked position, its extreme poverty and difficult economic problems, the structure of its political and economic system, the underdeveloped state of physical resources and shortage of trained manpower impose severe limitations on the country's absorptive capacity and thus inhibit its development. Considerable staff time is required, therefore, to help identify, prepare and implement future projects. During the forthcoming years, we expect to establish a basis for financing an average of three projects each year, which would assist in institution building, expand production, increase the foreign exchange earning capacity, improve absorptive capacity and enlarge government resources for development. To that end, technical assistance will continue to be an important feature of most future projects.

22. An appraisal report is being prepared for a water supply and sewerage project. The Government is preparing the preinvestment studies for a third education project by utilizing the expertise available within the Government and limiting outside help to the minimum. A grain storage project is ready for appraisal on the basis of a study financed by the British Government. After completion of an FAO/IBRD CP preparation report on a rural development project, the Government is taking further preparation steps in consultation with IDA. The project should be ready for appraisal by June 1978. Preparation of the third irrigation project is also well advanced. Preparation of a second Industrial Development Bank project will depend on further development of overall industrial investment policies by the Government, particularly for the private sector, and the initial experience of the program to support small and medium scale industry (see para. 5).

### PART III - THE AGRICULTURAL SECTOR IN AFGHANISTAN 1/

23. Agriculture is the key sector in the economy of Afghanistan. It employs about 54 percent of labor force and accounts for about 50 percent of GDP and about 60 percent of total exports by value. About 85 percent of the

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1/ Paragraphs 23-27 are identical to the corresponding paragraphs of the President's Report distributed to the Executive Directors on March 9, 1978 for the Fruit and Vegetable Export Project.

total land area of 63 million hectares is comprised of mountains, desert and forests, unsuitable for cultivation. Afghanistan has an extreme continental climate, with its hot, dry summers and severe, cold winters. Afghanistan is very poorly endowed with surface water. High evapo-transpiration rates in summer make the Afghan economy vulnerable to climatic changes. The drought between 1970 and 1971 followed by a severe winter in 1971/72 caused a more than 20 percent drop in agricultural production. Climatic and topographical factors together with inefficient traditional irrigation systems and the institutional problems as described below act as severe constraints to the improvement of agricultural productivity and consequently to the development of the country.

24. Grain crops, of which 75 percent consist of wheat, are grown on 80 to 90 percent of the cropped land. About 30 to 40 percent of the unarable land is used for livestock grazing, mostly for sheep. During the past three years, Afghanistan achieved a long-standing Government objective of self-sufficiency in foodgrains particularly in wheat. About 2.9 million tons of wheat are estimated to have been produced in 1976/77 as compared to 2.4 million tons in the pre-drought year of 1969/70. Rice production has also increased from 407,000 tons in 1969/70 to 450,000 tons in 1976/77. Production of the two major cash crops, sugarbeet and cotton, almost doubled between 1969/70 and 1976/77. The value of agricultural exports increased by over 100 percent for the period 1971/72 to 1975/76, due to a 50 percent price increase and a similar increase in volume. However, the year 1977/78 may again require imports of about 200,000 tons of wheat due to low rainfall.

25. The average size of land holdings is estimated at around 3.5 hectares of cultivable land, but the distribution of land ownership varies considerably among the regions. The majority of the estimated 1.5 million agricultural households have less than 0.5 hectare, and rely on sharecropping arrangements with landlords. Fragmentation and multiple ownership, resulting from the traditional inheritance law, discourages investment in mechanization and improvements including the introduction of fertilizers and other inputs. The landlord may invest little or nothing in his land but often acquires a substantial part of any production increase achieved by the tenant. In an effort to break through these socio-custom constraints, the Government has recently introduced a land reform law and a graduated land tax system and, under the current seven year development plan, proposes to expand greatly its program for the settlement of landless farmers. As the first step to support the Government efforts in this area, the Third Agricultural Credit Project for which an IDA credit of \$12 million was approved in June 1977, includes credit facilities for farmers resettling under the Government land settlement program.

26. The agricultural sector in Afghanistan still faces a number of institutional constraints including insufficient credit facilities, cumbersome administrative regulations, inadequate domestic financial resources, a shortage of trained staff, inadequate extension services and above all, cultural and social constraints including the fact that about 90 percent of the population is illiterate. Although harsh topographic and traditional socio-economic

customs restrain optimism in the Government's efforts in solving these problems, there have been some encouraging signs of improvement in these fields particularly during the past few years. The previous IDA credits for the agricultural sector have started to address, on a project basis, several of these constraints. In addition to their main objectives for production increases, the irrigation, livestock and agricultural credit projects are contributing to streamlining administrative arrangements, strengthening institutions connected with these projects and training staff in these fields. Furthermore, the recent second education project is designed to increase the number of middle level agricultural extension agents and to improve general teacher training.

27. The Ministry of Agriculture is the main administrator of agricultural development in Afghanistan, but its achievement and influence in agricultural development has been rather limited due to a shortage of trained and experienced staff, limited budgetary allocations and an unsatisfactory administrative framework including overcentralization of authority. The transfer in 1975 of the responsibility for irrigation development from the then Ministry of Agriculture and Irrigation to the Ministry of Water and Power and the creation of Department of Rural Development in the Prime Minister's office has improved efficiency in irrigation development, but these two Ministries and the Department of the Rural Development continue to face the same major constraints as listed above for the Ministry of Agriculture. With the three IDA credits amounting to \$30 million as the main financial support, the Agricultural Development Bank of Afghanistan (AgBank) has developed a financially and institutionally strong basis and established itself firmly as the leading agricultural development institution in the country. Its reorganization and strengthening in 1969 with assistance from UNDP and IDA were the first major steps to make institutional credit facilities available to farmers. The first agricultural credit project has been successfully completed and a completion report for the project has been finalized. The second agricultural credit project is being implemented successfully and is shortly to be phased into the third agricultural credit project which became effective in September 1977. Since its establishment in October 1973, the Afghan Fertilizer Company has contributed greatly to increasing the use of agriculture and improving the supply and distribution network of fertilizers with strong support from the United States Agency for International Development (USAID). The Afghan Seed Company, a recently organized Government organization, is expected to increase production and contribute to multiplying and distributing improved crop seeds particularly of wheat and cotton. The company is being assisted by a \$14 million loan from the Asian Development Bank, and would also be supported by the IDA credit of \$18 million for a Fruit and Vegetable Export project. The Herat Livestock Development Company organized under the First Livestock Development Project, for which an IDA credit of \$9 million was made in 1973, has been expanding its activities into an extensive animal health program under the Second Livestock Development Project, for which an IDA credit of \$15 million was made in July 1976. Since lack of an efficient extension service system has hindered the agricultural development in Afghanistan, IDA has recently made a US\$6 million credit for a second education project which

mainly aims at producing middle level extension agents. Although there are about 2,600 extension agents in Afghanistan their quality is low and additional extension agents are needed to provide adequate services to farmers.

### Irrigation Subsector

28. Irrigation is a key factor in the development of the Afghan economy. Since agriculture dominates the economy and since water is a major constraint on agricultural expansion, the Government continues to put emphasis on irrigation development. Although Afghanistan is poorly endowed with surface water, it is the main source of irrigation. The ground water potential is considered to be significant, but no nationwide investigation of it has been made. Some regional investigations have been underway since the late 1960s when UNDP initiated a groundwater study to demonstrate modern methods for exploring and assessing resources in representative areas. However, the results of these investigations are relatively limited, and there is a need to confirm and expand them to indicate additional areas suitable for well drilling and digging and to establish a nationwide order of priorities for groundwater development.

29. Mainly due to the rugged topography, only about 6 percent, or about 4 million hectares, of the total land area is cultivated annually, of which about 2.4 million hectares are irrigated. Of the irrigated land only about half receives enough water annually, and an average of 1 million hectares of the 2.4 million hectares are usually left fallow. In most irrigated areas served by traditional schemes, farmers rely on either seasonal diversion of river water by using weirs of stone, or brushwood, or ancient underground water courses which are inefficient. Many such diversion structures get washed away during high flows interrupting irrigation supplies during the low flow periods. Canal breaks are also frequent, and heavy seepage losses and operational wastes are experienced.

30. Effective development of irrigation has been constrained mainly by inadequate control at diversions and seasonal shortages in available flows, construction of main canals too far ahead of their distribution systems and inadequate operation and maintenance. Until the recent establishment of the Ministry of Water and Power, the division of responsibility among concerned ministries hampered effective coordination, and resulted in slow development.

31. Since the Republican Government came to power in July 1973, it has put great emphasis on irrigation improvement and directed its efforts to large scale irrigation projects. The current seven year development plan contains fifteen large carry-over irrigation projects and ten new large scale irrigation projects with a total target capacity of about 390,000 ha. These projects are well distributed throughout the country. The plan aims at more than a 300 percent increase in the total irrigated area during the seven-year period, leaving at the same time more than 300,000 ha as a carry-over target from the same projects into the next plan. The current plan is ambitious in view of the fact that only about 60,000 additional ha became irrigated between 1966 and 1975 under large scale projects. However, the Government is rightly

giving the first priority to the further development of irrigation. The Government realizes that large scale irrigation projects have long gestation periods, but because of the prime importance of irrigation improvement, it is committed to achieving at least the major part of the planned targets.

32. There is also some emphasis on the development of minor irrigation schemes. The Rural Development Department has been formed to take up responsibilities in this area. The small scale irrigation works will be coordinated with the construction and improvement of rural feeder roads, bridges, wells and other related rural development works.

33. The construction of distribution and drainage systems has failed to keep pace with major canal construction in some of the large scale projects. To avoid this problem, the proposed project follows up the Khanabad Irrigation Project for which the original IDA credit of \$5 million has been increased to \$15 million by a supplementary credit. This project was designed as a first phase to modernize the existing irrigation system in the Khanabad Valley and to prepare a feasibility study for a project to develop the area further. The implementation of the first project has been slow due primarily to delays in Government ratification of the original credit and in appointing consultants. This led to a considerable cost overrun which resulted in a supplementary credit of \$10 million approved by the Executive Directors in January 1976. However, satisfactory progress is now being made on the construction of this project which is expected to be completed in December 1978. As a result of the works under the first project including the construction of a diversion weir on the Khanabad River, a more regulated water supply for canals in the project area is assured. This opens the door for additional rehabilitation of the irrigation networks in the Valley, which is being proposed now under the second project.

#### PART IV - THE PROJECT

##### Project History

34. In mid-1975, Afghanistan requested IDA to assist in financing a second Khanabad irrigation project to increase agricultural benefits and continue the support given to agricultural development under the first Khanabad Irrigation Project. This would be the eighth IDA credit for the agricultural sector in Afghanistan. The proposed project was identified by an FAO/IBRD CP mission in October 1975, and prepared by the consultants to the Ministry of Water and Power financed under the first Khanabad Irrigation Project. The project was appraised in March 1977 and negotiations were held in Washington from January 9 to 25, 1978. The Afghan delegation was headed by His Excellency Farid Isaaq, Deputy Minister of Water and Power and included a representative of the Ministry of Planning.

##### The Project

35. The project would increase production through irrigation rehabilitation, drainage and supporting agricultural services on an area of 41,460 ha

comprising 26,600 ha included under the first Khanabad Irrigation Project, 13,660 ha of land in the lower part of the Khanabad Valley, and construction of new irrigation facilities on 1,200 ha. It would also include a 20 ha pilot area for testing different irrigation methods on loess soils, which represent a potentially irrigable area of about 9,000 ha. A malaria control program would also be carried out in the project area to improve the health of the project farmers. The project facilities are described below:

(a) Asqalan, Yanghareq, Gostepa and Larkhabi Areas (13,660)

remodelling and rehabilitation of the existing main canals, including construction of intake regulators, water distribution and drop structures, gravelled roads along canals, remodelling of an existing drain and land reclamation works on about 4,800 ha.

(b) Alchin Terrace (1,200 ha)

construction of pumping stations, a regulator, irrigation and drainage networks, and land levelling of 430 ha.

(c) Upper Khanabad Area (26,600 ha)

construction of two new drainage networks, water distribution and control structures on existing canals, offtake regulators for lateral canals, and gravelled canal roads.

(d) Esantop Pilot Area (20 ha)

a pilot project for a study of soil subsidence under different irrigation methods and the most suitable irrigation method on the loess soil.

36. About 190 km of roads would be gravelled under the project along the main canals for maintenance of project works and movement of agricultural inputs and produce. An extension service would be established to cover the project area. Consultant services would be provided for (a) implementation of the project works and the pilot project on the Esantop Terrace, and training of local staff and (b) review at a national level of the effectiveness of the agricultural research and extension services and setting up an effective extension service in the project area and training local staff in modern extension techniques (see paras. 41-43 below). Productive credit for investments in modern inputs would be made available through AgBank to farmers in the project area (see paras. 44-46 below). A feasibility study for a dam for water resource development at Warsech on a tributary of the Khanabad River, about 90 km upstream of the project area, would be carried out under the project.

37. Through the above project components, including the establishment of an extension system, the provision of productive credit and technical assistance, the project would help increase agricultural productivity particularly

in food grains and industrial raw materials and would also improve farm technology and management. These improvements would support the Government's objectives of attaining self-sufficiency in food grains, increasing production of foreign exchange earning crops and raising Government revenue. These are all in line with the objectives of the Government's seven year development plan. The Credit and Project Summary describes the major features of the proposed project. The Appraisal Report (No. 1703-AF) entitled "Appraisal of Khanabad II Irrigation Project" is being distributed separately to the Executive Directors.

#### Organization and Execution

38. The planning, construction, operation and maintenance of the irrigation and drainage works, and the implementation of a feasibility study for the Warsech Dam would be the responsibility of the Khanabad Irrigation Project Department (KIPD) of the Ministry of Water and Power. The agricultural extension component of the project would be implemented by the Khanabad Extension Unit (KEU) to be set up in Kumduz under the General Directorate of Agricultural Development and Extension (GDADE) of the Ministry of Agriculture. Both KIPD and KEU would be assisted by consultants to be employed under the project. The agricultural credit component of the project would be implemented by AgBank. The malaria control program in the project area would be carried out by the Malaria Institute of the Ministry of Public Health.

#### Khanabad Irrigation Project Department (KIPD)

39. KIPD was established as the department responsible for irrigation and drainage development under the first Khanabad project, and has been the main contact point with the Association in implementing that project, including the supervision of consultants' work. The headquarters of KIPD would continue to be located in Kumduz. Its staff would be expanded to include the Operation and Maintenance Division, which would consist of 3 sections, each would be headed by an engineer who would be assisted by two or three technicians. The President of KIPD would report to the Minister of Water and Power. The Government would make adequate and timely budgetary allocations to keep the project facilities in good working condition (Section 4.01(b), Development Credit Agreement). Annual operation and maintenance costs of the primary irrigated and drainage facilities are estimated at about \$0.6 million or about \$15/ha.

40. Under the supervision of and guidance from KIPD, project farmers would continue to be responsible for operation and maintenance of the secondary and tertiary irrigation and drainage networks as well as farm roads. Through elected water masters (mirabs), the farmers arrange for distribution of water and call for labor contribution to carry out maintenance work. Farmers pay to the mirab a fixed amount in cash and kind per unit area.

41. The project consultant to be employed by July 31, 1978 would carry out the detailed designs, prepare construction drawings, supervise construction, and carry out a feasibility study for the Warsech Dam (Section 3.03 (a), Development Credit Agreement). This consultant would also assist KIPD in the

operation and maintenance of the project facilities and to train local staff. It would also assist KIPD in preparing a training program to be submitted to IDA for approval prior to December 31, 1978, (Section 3.04 (a), Development Credit Agreement).

#### Khanabad Extension Unit (KEU)

42. The first Khanabad Irrigation Project did not provide for an extensive extension service because USAID was supporting a research and extension program in the area, and a French cotton mission working in the neighboring area was considering expanding its activities to the project area. However, the USAID program has been completed, and the French cotton mission has not expanded its services into the area. Thus, extension services in the project area are currently inadequate and need to be strengthened to ensure the expected benefits of the project. Under the proposed project, the Khanabad Extension Unit would be set up by December 31, 1978 exclusively to cover the project area under the General Directorate of Agricultural Development and Extension in Kunduz of the Ministry of Agriculture (Section 3.05, Development Credit Agreement). It would have two sub-units, each of which would have four sectors. KEU would be headed by an agriculturalist director, and its two subunits would be headed by agricultural technicians. Sixty-four extension agents, all vocational high school graduates, would be placed under the four sectors and live in project villages.

43. A team of expatriate agricultural consultants would assist in setting up and organizing KEU, training extension agents, and reviewing at the national level the existing agricultural and research services. The team will be employed by September 30, 1978 (Section 3.03(b), Development Credit Agreement).

#### Agricultural Development Bank of Afghanistan (AgBank)

44. Institutional credits would be made available to farmers in the project area through AgBank for farm equipment and on-farm development. AgBank would also finance one-year loans for productive inputs for about 50 percent of the project farmers. AgBank would continue to be reimbursed by the Government for one-year loans to farmers which are more than twelve months overdue. By March 31, 1979, AgBank would reorganize and upgrade its office in Kunduz increasing its staff, responsibilities and functions to meet project requirements (Section 2.01(c)(i), Project Agreement).

45. AgBank would be provided with a workshop under the project and would be responsible for supplying and servicing agricultural equipment in the project area (Section 2.01(c)(ii), Project Agreement). AgBank's Supply Department is being separated to form AgBank's wholly owned subsidiary company, the Agricultural Machines and Services Company (AMSCO). AMSCO, when fully established, would assume the responsibility for supplying and servicing agricultural equipment.

46. Since its reorganization in 1969 under a UN Special Fund technical assistance project for which the Bank continues to be the executing agency,

and through the financial and technical assistance supplied by IDA through three credits, AgBank has achieved a remarkable transformation from an inefficient and small-funding channel into the leading agricultural development institution in the country with a professionally competent staff and the ability to generate revenues. The proposed IDA credit would be the seventh to be wholly or partly channeled through AgBank; about \$3.3 million of the proposed credit would be channelled through AgBank for this project. AgBank continues to make generally satisfactory progress in its agricultural development operations.

#### Malaria Institute

47. The Khanabad Valley has been known for its malaria hazard, and the Government has been making efforts to control malaria incidence in the valley. However, inadequate funds usually are earmarked for the valley. The project would provide funds to carry out a malaria control program in and around the project area for the duration of the project. The Malaria Institute of the Ministry of Public Health, already well established under assistance from UNPD and WHO, would monitor the incidence of malaria and use its best efforts to control malaria in the project area in accordance with a program which would be prepared by the Institute and satisfactory to IDA (Section 3.15, Development Credit Agreement). No disbursement for the malaria control program would be made from the proposed IDA credit until a satisfactory program has been furnished to IDA (para 4, Schedule 1, Development Credit Agreement).

#### Land Ownership Patterns and Tenancy

48. The land ownership pattern in the project area is complex and available information incomplete. A sample analysis of individual villages carried out under the first Khanabad Irrigation Project indicates that over 60 percent of the landowners are holders of less than 4 ha. However, earlier surveys indicated a more skewed pattern. The recently enacted Law of Land Survey, Settlement of Land Disputes and Registration of Lands (the Land Survey Law) provides for cadastral surveys, settlement of ownership and boundary disputes, classification of lands and issue of land titles and enables the Graduated Land Tax Law of 1975 to be applied. The Land Reform Law of July 1975 defines ceilings on land holdings and provides for redistribution of land in excess of the stipulated limits to landless farmers. Although implementation of the Land Reform has not yet begun due to delays in compiling necessary by-laws and regulations, the other two laws are being implemented in the project area. The Government would carry out land surveys, settlement of disputes and registration of land in the project area according to the Land Reform Law and the Land Survey Law. Since lack of land titles and insecure tenancy arrangements hinders access to agricultural credit, the Government would take necessary steps to make available to the project farmers, whether landowners or not, an adequate volume of short-term agricultural credit on reasonable terms. By December 31, 1980, the Government would distribute the land to be irrigated under the project on the Alchin Terrace in individual parcels in accordance with the Land Reform Law and the Land Survey Law (Section 3.06 (a), (b), (c), Development Credit Agreement).

### Monitoring and Evaluation

49. The Government would cause the implementing agencies to maintain adequate records and to submit necessary information through periodic reports to IDA to measure project implementation against the proposed schedule and project performance against the expected project benefits. Within six months of the closing date of the proposed credit, the Government would prepare a project completion report and furnish it to IDA (Section 3.08 (a), (b), (c), Development Credit Agreement).

### Project Cost and Financing

50. The estimated total cost of the project is \$28.7 million equivalent, of which the foreign exchange component is about \$16.1 million or 56 percent. Details of the costs are given in the Credit and Project Summary. This estimate is net of duties and taxes as no taxes are levied in Afghanistan on IDA financed projects. About 700 man-months of consulting services would be provided under the project at an average cost of \$2,500 per man-month including contingencies. The exchange rate used for the calculation of project costs - US\$1:Afs 47.5 - dates from March-June 1977 as compared to the December 1977 exchange rate of US\$1:Afs 43.0. The exchange rate in Afghanistan is highly volatile, responsive to seasonably variable but significant flows of workers' remittances as well as capital flight from neighboring countries, and intervention by the central bank. It is, therefore, preferable to use an exchange rate which reflects more stable trends. The proposed IDA credit of \$22 million would finance the full foreign exchange component and \$5.9 million equivalent of the local costs, and would amount to 77 percent of the total project cost. IDA's financing of local costs in Afghanistan is justified for the reasons given in para. 17 of this report. The Government would be the borrower and would bear the exchange risk. The remaining local funds needed to finance the project would come from the Government (\$5.6 million), AgBank's own funds (\$0.7 million) and sub-borrowers (\$0.4 million). Costs per beneficiary family, excluding price contingency but including agricultural credit, amount to about \$1,900.

51. Through its budgetary allocations, the Government would make available \$18.7 million out of the proposed IDA credit of \$22 million to KIPD, KEU and the Malaria Institute for the implementation of the project. The Government would on-lend to AgBank the remaining \$3.3 million of the credit proceeds for AgBank's lending operations in the project area, at 4.5 percent interest with a repayment period of 15 years including 5 years grace. AgBank's sub-borrowers would benefit from various types of loans with a duration of up to 12 years. For medium-term loans of 6 years, the interest rate would be 8 percent with a grace period up to one year. The same interest rate would be applied to long-term loans of up to 12 years with a grace period up to 5 years. Short-term loans for fertilizer, pesticides and seeds would be made at 10 percent interest with up to 12 months repayment period. On all these loans, a one percentage point interest discount would be given to borrowing cooperatives. The interest rates adequately cover AgBank's increasing administrative and personnel expenses and costs of borrowing, and allow for a sufficient level of reserves against defaults on medium- and long-term loans;

in addition, they are expected to assist AgBank in strengthening its general reserves, thus placing it in a stronger position gradually to assume some risks on short-term input loans in the future.

### Procurement

52. Of the total Project cost of US\$28.7 million, the cost of works, equipment and vehicles and other goods, including physical and price contingencies, would amount to US\$23.5 million. Of this cost, goods estimated to cost about US\$21.3 million (91%) would be procured either following international competitive bidding (88%) or after local competitive bidding (3%); the remaining 9% (about US\$2.2 million) consisting of fertilizer, seeds and other inputs to be financed under short term agricultural credit might be procured by the recipients of such credit through normal commercial channels. Therefore all procurement would be in accordance with the Guidelines for Procurement under World Bank Loan or IDA Credits - March 1977.

53. All irrigation and drainage works, estimated to cost about US\$16.6 million, would be constructed under one contract, which would be awarded following international competitive bidding amongst prequalified bidders. Equipment and vehicles, drugs for the Malaria Control Program and farm equipment, estimated to cost about US\$4.0 million, would be grouped into suitably sized contracts, which would also be awarded following international competitive bidding. Domestic bidders for civil works contracts would be granted a margin of preference of 7-1/2 percent for the purpose of evaluation and comparison of bids; for locally manufactured goods a margin of preference of 15 percent would be applicable. Procurement estimated to cost about US\$0.7 million, and consisting of (a) contracts for equipment and vehicles estimated to cost less than US\$20,000 each; (b) contracts for buildings estimated to cost less than US\$200,000 each; and (c) farm equipment and implements estimated to cost less than US\$20,000 each would be arranged following local competitive bidding procedures provided the aggregate cost of contracts awarded under these categories did not exceed respectively US\$150,000; US\$800,000 and US\$200,000.

### Disbursements

54. The proposed IDA credit of \$22 million would be disbursed over five years to finance: (a) 80 percent of total expenditures for irrigation and drainage works; (b) 40 percent of total expenditures for buildings; (c) 100 percent of foreign expenditures and 75 percent of local expenditures for equipment, vehicles, and malaria control drugs; (d) 100 percent of foreign expenditures for consultants and training; (e) 100 percent of total expenditures for salary supplements to local staff. The agricultural credit component would be financed in accordance with the following percentages: (a) 100 percent of foreign expenditures and 75 percent of local expenditures for tractors and other farm implements; (b) 70 percent of the amount disbursed by AgBank for on-farm development; and (c) 70 percent of the amount disbursed by AgBank during the first 12 months of the project and thereafter 70 percent of the annual incremental disbursements for sub-loans for fertilizers, seeds and other inputs. No disbursement would be made from the proposed credit for the

malaria control component of the project until a satisfactory malaria control program has been furnished to the Association (para 4, Schedule I, Development Credit Agreement). The estimated annual disbursement schedule for the credit is given in the Credit and Project Summary.

#### Environment and Health

55. The works to be constructed under the project would neither adversely affect the environment of the project area nor exacerbate the incidence of malaria. The construction of new drains and the remodelling of existing canals and drains would make these waterways hydraulically more efficient, thereby improving the general environment. The malaria control program under the project would help improve the health of the inhabitants of the project area.

#### Cost Recovery

56. The existing irrigation channels in the project area were constructed by the inhabitants of the area over 60 years ago without assistance from the Government. The farmers' right to receive irrigation water from the existing canals without payment of any water charge, therefore, has existed for over half a century. Most of the existing traditional irrigation schemes in the country were originally built and maintained in the same manner as in the project area, and the Government finds it extremely difficult to levy water charges for recovery of investment or operation and maintenance costs of any traditional scheme that has been remodelled or rehabilitated through Government investments. However, the Government collects public revenues from farmers, which can be considered as contributing to the cost recovery of rural investments, through a Graduated Land Tax which takes into account the productive capacity of land related to the water availability. Government also generates revenue through the cotton marketing mechanism. The Government controls the purchase price of seed cotton and has a monopoly for processing and marketing ginned cotton. The differential between the purchase and processing costs, and the selling or export prices represents Government revenue. Following the full development of cotton production under Khanabad I and II Irrigation Projects in 1987, such revenue is estimated to increase by 330 percent from the present level of \$0.8 million to \$4.1 million. Land tax and revenues are estimated to increase from about \$0.1 million to \$0.2 million. Thus the incremental revenues generated as a result of both projects would amount to about \$3.4 million. If this method is considered as an indirect mechanism for the recovery of operation, maintenance and investment costs for both Khanabad I and II Projects, then it is estimated that, over the project's life and at a 10 percent discount rate, 100 percent of operation and maintenance costs and about 50 percent of investment costs would be recovered. The level of recovery is well in line with that achieved by most other countries on similar investments; it is high especially considering that the majority of beneficiaries are in the rural poverty group.

57. However, the present mechanisms for cost recovery could be improved to achieve more equity among water recipients and more efficient use of irrigation water. The Government recognizes the need for preventing waste of

water and promoting more efficient and equitable water management especially when the present practice may often result in inequitable water distribution among the upper and the lower farmers on a canal. Under the provisions of the first Khanabad Irrigation Project, a comprehensive study of charges to be levied on the farmers benefitting from the project, having due regard to their means and capacity to pay, was required to be made, and in the light of the results of this study appropriate steps were to be taken by Government to ensure recovery. Although a study has been recently completed, it needs to be supplemented to provide an adequate basis for Government's decisions which have far reaching national implications.

58. Keeping all of the above factors in view, the following assurances were obtained during negotiations: (a) by September 30, 1979, a study with terms of reference acceptable to IDA and supplementary to the study carried out under the first Khanabad Project would be completed in order to analyze and recommend measures which could be taken for the recovery of operation, maintenance and investments costs of the works provided under both Khanabad projects; (b) by December 31, 1979, the supplementary study would be furnished to IDA along with Government's comments; (c) Government would exchange views with IDA on the recommendations made in the supplementary study and make such modifications to these recommendations as appropriate. The Government would then implement these recommendations in accordance with a program acceptable to IDA; and (d) until such time as the recommendations had been implemented, the Government would continue to carry out its indirect cost recovery policies and mechanisms with respect to land taxation and the generation of revenues from the marketing of cotton as in force on January 1, 1978 (Section 3.12 (a), (b), (c), Development Credit Agreement).

#### Benefits

59. The project would directly benefit about 12,000 farmers and their families or about 108,000 persons, through increased production of various farm commodities. The project is expected to increase production of rice and wheat by about 20,500 tons, cotton by about 18,000 tons and other crops including maize, melon and vegetables by about 14,000 tons. The incremental wheat and rice production would replace imports of wheat and contribute to self-sufficiency of food. Wheat and rice from the project area would be shipped to food deficit areas, in particular Kabul, and facilitate the Government's efforts to set up an expanded wheat stabilization program. Seed cotton will be purchased by a government company to be processed into ginned cotton, vegetable oil and various other by-products for which international and local markets are confirmed. Other commodities such as maize, melon and vegetables are expected to be absorbed without problem by the local market.

60. At the moment, 60 percent of the farmers in the project area have per capita income below the absolute rural poverty level of \$84. The average owner operated farm's income is already increasing gradually to a level of \$845, or \$94 per capita, under the first Khanabad project whose physical construction is expected to be completed in December 1978. About 55 percent of the project farmers in the area will, however, still have incomes below the absolute poverty level. These will be addressed in the proposed project

under which the average owner operated farm's income is expected to increase to \$1,180. Cotton sharecroppers household income would increase similarly from \$372 to \$460 and rice sharecroppers household income from \$325 to \$370. The overall economic rate of return for the proposed project is estimated at 25 percent; exclusion of investments on the feasibility study and the malaria control program would improve it to 29 percent. If this project is considered together with the first Khanabad Irrigation Project, the combined rate is estimated at 20 percent. The economic rate of return is estimated at 25 percent for the Asqalan/Yanghareq area, the cost of which is \$4.2 million, 22 percent for the Gostepa and Larkhabi areas, the cost of which is \$3.9 million, 25 percent for the Alchin Terrace, the cost of which is \$1.5 million, and 42 percent for the Upper Khanabad area, the cost of which is \$4.2 million. The project would also result in the following unquantifiable benefits: (a) institution building and training of staff of the project implementing agencies; (b) improvement in public health through malaria control; (c) improvement in the general communications in the project area; and (d) contributions to the development of the country through the studies for the Warsech Dam, Esantop pilot area, the cost recovery and the agricultural research and extension at national level.

#### Risks

61. There is some uncertainty as to whether KEU would be able to establish an efficient agricultural extension service in the project area. The project would still be viable even if the establishment of an efficient extension service is significantly delayed or hampered. A French cotton mission has been successfully training local extension agents and working with about 5,000 cotton farmers in neighboring areas. The success of the French mission suggests that with the right methods and approach, the overall weakness of extension services in Afghanistan can be overcome. KEU with its consultant team is expected to maintain close coordination with the French mission.

#### PART V - LEGAL INSTRUMENTS AND AUTHORITY

62. The draft Development Credit Agreement between the Republic of Afghanistan and the Association, the draft Project Agreement between the Association and AgBank and the Recommendation of the Committee provided for in Article V, Section I (d) of the Articles of Agreement of the Association are being distributed to the Executive Directors separately.

63. Features of the project of special interest are listed in Section III of Annex III.

64. Special conditions of effectiveness of the IDA credit are as follows (Section 6.01, Development Credit Agreement):

- (a) the execution of the Project Agreement on behalf of AgBank has occurred after having been duly authorized or ratified by all necessary corporate and governmental action; and

(b) the execution of the Subsidiary Agreement on behalf of the Borrower and AgBank, respectively, has occurred after having been duly authorized or ratified by all necessary corporate and governmental action.

65. No disbursement would be made from the proposed credit for the malaria control component of the project until a satisfactory malaria control program has been furnished to the Association (para 4, Schedule 1, Development Credit Agreement).

66. I am satisfied that the proposed IDA credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

67. I recommend that the Executive Directors approve the proposed development credit.

Robert S. McNamara  
President

Attachments  
March 9, 1978  
Washington, D.C.

TABLE 3A  
AFGHANISTAN - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOU KM <sup>2</sup> )	AFGHANISTAN			REFERENCE COUNTRIES (1970)		
	1960	1970	MOST RECENT ESTIMATE	NEPAL	SUDAN	SYRIAN ARAB REP.***
TOTAL	635.0					
AGRIC.	144.3					
GNP PER CAPITA (US\$)	80.0*	100.0*	160.0*/a	70.0*	160.0*	450.0*
<b>POPULATION AND VITAL STATISTICS</b>						
POPULATION (MID-YR. MILLION)	9.9*	12.3*	14.0*/a	11.3	14.0	6.3
POPULATION DENSITY PER SQUARE KM.	15.0	19.0	22.0/a	80.0	6.0	34.0
PER SQ. KM. AGRICULTURAL LAND	71.0	87.0	97.0/a	285.0	46.0	56.0
<b>VITAL STATISTICS</b>						
CRUDE BIRTH RATE (/THOU, AV)	49.0	48.7	51.4/b,c	44.7	48.9	47.6
CRUDE DEATH RATE (/THOU, AV)	34.1	27.6	30.7/b,c	24.6	20.2	16.2
INFANT MORTALITY RATE (/THOU)	..	..	269.4/b	300.0	..	93.0
LIFE EXPECTANCY AT BIRTH (YRS)	32.8	37.8	34.6/b,c	40.6	46.1	53.0
GROSS REPRODUCTION RATE	..	3.4	3.4	3.0	3.4	3.6
<b>POPULATION GROWTH RATE (%)</b>						
TOTAL	2.2**	2.2**	2.2	2.0	2.2/a	3.3
URBAN	5.2	5.2	7.2/k	3.1	5.5	5.0
URBAN POPULATION (% OF TOTAL)	8.0	10.7	14.3/a	4.0	11.8	43.5
<b>AGE STRUCTURE (PERCENT)</b>						
0 TO 14 YEARS	41.9	43.2	44.6/b	..	45.0	46.0
15 TO 64 YEARS	54.8	54.2	51.1/b	..	52.0	50.8
65 YEARS AND OVER	3.3	2.6	4.3/b	..	3.0	3.2
<b>AGE DEPENDENCY RATIO</b>						
ECONOMIC DEPENDENCY RATIO	0.8	0.8	1.0	..	0.9	1.0
FAMILY PLANNING ACCEPTORS (CUMULATIVE, THOU)	..	..	30.0/a	86.5	..	..
USERS (% OF MARRIED WOMEN)	..	..	1.0/a,e	..	1.6/b	2.5
<b>EMPLOYMENT</b>						
TOTAL LABOR FORCE (THOUSAND)	..	..	3700.0/a,f	..	4500.0	1500.0/a
LABOR FORCE IN AGRICULTURE (%)	..	..	54.0/a,f	..	80.0	49.0/a
UNEMPLOYED (% OF LABOR FORCE)	..	..	4.0/a,f	..	..	6.4
<b>INCOME DISTRIBUTION</b>						
<b>% OF PRIVATE INCOME REC'D BY-</b>						
HIGHEST 5% OF HOUSEHOLDS	..	..	..	..	..	..
HIGHEST 20% OF HOUSEHOLDS	..	..	..	..	49.2/c	..
LOWEST 20% OF HOUSEHOLDS	..	..	..	..	5.1/c	..
LOWEST 40% OF HOUSEHOLDS	..	..	..	..	14.5/c	..
<b>DISTRIBUTION OF LAND OWNERSHIP</b>						
% OWNED BY TOP 10% OF OWNERS	..	..	..	..	..	..
% OWNED BY SMALLEST 10% OWNERS	..	..	..	..	..	..
<b>HEALTH AND NUTRITION</b>						
POPULATION PER PHYSICIAN	22450.0/a	14900.0	12900.0/a	49770.0/a	14200.0	3880.0
POPULATION PER NURSING PERSON	23210.0/a	21080.0	11700.0/a	35600.0/a,b	1740.0	2730.0/b
POPULATION PER HOSPITAL BED	5950.0/a	..	5200.0/a	6750.0	930.0/d	1010.0
<b>PER CAPITA SUPPLY OF -</b>						
CALORIES (% OF REQUIREMENTS)	86.0	80.0	83.0	93.0	91.0	102.0
PROTEIN (GRAMS PER DAY)	63.0	58.0	58.0/g	52.0	63.0	70.0
-OF WHICH ANIMAL AND PULSE	..	11.0	..	11.0	24.0/e	16.0/c
DEATH RATE (/THOU) AGES 1-4	..	..	24.1/b	..	..	4.1
<b>EDUCATION</b>						
<b>ADJUSTED ENROLLMENT RATIO</b>						
PRIMARY SCHOOL	9.0/c	21.0/a	30.0/h	26.0	33.0	89.0
SECONDARY SCHOOL	1.0/c	6.0/a	11.0/h	..	7.0	39.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)	12.0	12.0	12.0	10.0	12.0	12.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)	11.0	4.0	3.0	6.0	1.0/f	3.0/d
ADULT LITERACY RATE (%)	8.0	10.0	14.0/b	14.0	15.0	40.0
<b>HOUSING</b>						
PERSONS PER ROOM (URBAN)	..	..	..	..	2.5/e	..
OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)	..	97.0/b	91.0/i	..	36.0/e,g	..
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)	..	..	..	..	26.0/e,g	..
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)	..	..	..	..	..	..
<b>CONSUMPTION</b>						
RADIO RECEIVERS (PER THOU POP)	2.0	21.0	..	5.0	..	224.0
PASSENGER CARS (PER THOU POP)	0.5	3.0	3.0/l	0.4	2.0	5.0
ELECTRICITY (KWH/YR PER CAP)	13.0	32.0	59.0/a	6.0	..	151.0
MENSPPRINT (KG/YR PER CAP)	..	0.1	0.1	..	0.2	0.2

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Most Recent Estimate between 1973 and 1975.

- GNP per capita data for all countries are based on World Bank Atlas methodology (1974-76 basis); GNP and population data for Afghanistan relate to the fiscal year which starts on 21 March.
- \*\* Difference between UN rate of natural increase and IBRD population growth rate due to different population estimates.
- \*\*\* Syria's similarity in total population, its arid climate with its heavy reliance on rainfall for agriculture production, the importance of cotton as a major export crop, and finally the dominant role of the government in the economy, all provide useful points of comparison with Afghanistan. Its higher literacy rate and better health facilities are objectives to be aimed at by Afghanistan in the next decade.

<u>AFGHANISTAN</u>	1960	/a	1962; /b	Nursing personnel in medical institutions only; /c	Public education only.
	1970	/a		/b	Percentage of population without safe water supply.
	<u>MOST RECENT ESTIMATE:</u>	/a	1976; /b	1972; /c	UN 5-year averages for birth and death rates and for life expectancy at birth are 49.2, 23.8 and 40.3 respectively; /d
		/e	Ratio of population under 15 and 65 and over to total labor force; /f	As percentage of women of child-bearing age; /g	Aged 8 years and over, out of settled population of 12.5 million; /h
		/i	1969-71 average; /j	Public education only; /k	Percentage of population without safe water supply; /l
		/m	1971; /n		1970-76.
<u>NEPAL</u>	1970	/a		/b	Personnel in government services only; Including midwives.
<u>SUDAN</u>	1970	/a		/b	Due to emigration, population growth rate is lower than rate of natural increase; Ratio of population under 15 and 65 and over to total labor force; /c
		/d	1967-68; /e	Government hospital establishments; /f	1964-66; /g
		/h		/i	Beginning 1970, the duration of general secondary education was reduced from 8 to 6 years; /j
		/k			Urban only.
<u>SYRIAN ARAB REP.</u>	1970	/a		/b	Syrian population only; Including midwives, assistant midwives and assistant nurses; /c
		/d		/e	1964-66; /f
		/g			Including UNRWA schools.

R10, September 8, 1977

DEFINITIONS OF SOCIAL INDICATORS

- Land Area (thou km<sup>2</sup>)  
Total - Total surface area comprising land area and inland waters.  
Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.
- GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by same converter method as World Bank Atlas (1973-75 basis); 1960; 1970 and 1975 data.
- Population and vital statistics  
Population (mid-year million) - As of July first; if not available, average of two end-year estimates; 1960, 1970 and 1975 data.  
Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.  
Population density - per square km of agric. land - Computed as above for agricultural land only.
- Vital statistics  
Gross birth rate per thousand, average - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.  
Gross death rate per thousand, average - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.  
Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.  
Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.  
Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if the experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.  
Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.  
Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.  
Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.
- Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.  
Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.  
Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.  
Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.  
Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.
- Employment  
Total labor force (thousand) - Economically active persons, including armed forces and unemployed but including housewives, students, etc.; definitions in various countries are not comparable.  
Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.  
Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.
- Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.
- Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.
- Health and Nutrition  
Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.
- Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.  
Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.  
Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.  
Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 21 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.  
Per capita protein supply from animal and pulses - Protein supply of food derived from animals and pulses in grams per day.  
Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.
- Education  
Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.  
Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction, provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.  
Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.  
Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.  
Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.
- Housing  
Persons per room (urban) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings include non-permanent structures and unoccupied parts.  
Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.  
Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.  
Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.
- Consumption  
Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect, data for recent years may not be comparable since most countries abolished licensing.  
Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.  
Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.  
Newspaper (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newspaper.

ECONOMIC INDICATORS

	<u>GNP in 1975/76 (At 1975/76 Constant Prices)</u>		<u>ANNUAL RATE OF GROWTH</u> <sup>1/</sup>
	<u>US\$ Million</u>	<u>%</u>	<u>(%, Constant Prices)</u> <u>1969/70 - 1975/76</u>
GNP at Market Prices	1/ 1976	100.0	3
Gross Domestic Investment	-	-	-
Gross National Savings	1/ -	-	-
Current Account Balance	-54	-3	1
Exports of Goods	236	12	19
Imports of Goods	278	14	14

<u>LABOR FORCE (1975/76)</u> <sup>2/</sup>	<u>Thousands</u>	<u>% of Total</u>
Agriculture and Livestock	1947.8	53.8
Industry and Mining	40.7	1.1
Handicrafts	353.1	9.8
Construction	44.7	1.2
Transport and Communications	56.6	1.6
Commerce	202.8	5.6
Services	691.6	19.1
Other	282.7	7.8
Total	3620.0	100.0

<u>GOVERNMENT FINANCE</u>	<u>(Afs. million)</u>			<u>Rev. Est.</u>
	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>
Current Receipts	7,017	10,250	12,025	13,600
Current Expenditures	5,799	6,244	9,081	10,377
Current Surplus (Deficit)	1,218	4,006	2,944	3,223
Capital Expenditures	3,672	4,648	6,065	11,500
External Assistance (gross)	3/ 2,308	2,958	4,644	5,400

<u>MONEY, CREDIT AND PRICES</u> <sup>4/</sup>	<u>(Million Afs. Outstanding End of Period)</u>			
	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>
Money and Quasi Money	13,901	15,195	17,822	23,784
Bank Credit to Public Sector (net)	10,269	11,118	12,423	13,679
Bank Credit to Private Sector	4,259	5,253	5,585	6,774
Annual Percentage Change in Domestic Prices	-1.6	13.9	6.5	3.4 <sup>5/</sup>

1/ IBRD estimates. The historical figures are based on crude approximations and as such the growth rates reported are mere orders of magnitude. On the GNP breakdown, the available figures are very crude and as such the Gross Domestic Investment and Gross National Savings figures have not been reported.

2/ Refers only to the settled labor force.

3/ Portion of development expenditure financed by foreign aid. To find its US dollar equivalent an official exchange rate of 45 Afghanis to 1 SDR and the respective annual average SDR/US\$ ratio should be used on a number of Government transactions.

4/ Year ending March 20.

5/ Estimated.

January 24, 1978

MERCHANDISE EXPORTS (US\$ million)

	<u>1974/75</u>	<u>Percent</u>	<u>1975/76</u>	<u>Percent</u>
Dry Fruits and Nuts	58.2	25.2	54.7	23.2
Fresh Fruits	31.5	13.7	20.1	8.5
Karakul	12.7	5.5	10.4	4.4
Cotton	34.7	15.0	35.3	15.1
Carpets and Rugs	19.9	8.6	16.1	6.8
Natural Gas	32.1	13.9	46.3	19.7
All Other Commodities	41.5	18.1	52.6	22.3
Total	230.6	100.0	235.5	100.0

BALANCE OF PAYMENTS

(US\$ million)

	<u>1975/76</u>	<u>Est. 1976/77</u>
Exports of Goods	235.5	310.0
Imports of Goods	<u>277.5</u>	<u>343.4</u>
Balance of Trade	-42.0	-33.4
Other Current Account (net)	<u>-12.4</u>	<u>-16.2</u>
Balance on Current Account	<u>-54.4</u>	<u>-49.6</u>
Net Loans and Grants	93.6	111.8
(Disbursements)	111.6	129.5
(Amortization)	- 18.0	-17.7
Other Items n.i.e.	<u>13.6</u>	<u>5.7</u>
Increase in Reserves	<u>52.8</u>	<u>67.9</u>

RATE OF EXCHANGE

(Free Rate)

1972/73	-	US\$ 1.00 = Afs. 80.50 Afs. 1.00 = US\$ .0125
1973/74	-	US\$ 1.00 = Afs. 60.72 Afs. 1.00 = US\$ .0165
1974/75	-	US\$ 1.00 = Afs. 56.58 Afs. 1.00 = US\$ .0177
1975/76	-	US\$ 1.00 = Afs. 55.04 Afs. 1.00 = US\$ .0182
1976/77	-	US\$ 1.00 = Afs. 47.38 Afs. 1.00 = US\$ .0211

EXTERNAL PUBLIC DEBT, March 20, 1977

US\$ million

Outstanding and Disbursed	1,748.5
Disbursed	911.2
Undisbursed	837.2
Service Payments (1976/77)	26.9
Interest	9.2
Amortization	17.7
Debt Service Ratio (1976/77)	8.3%

THE STATUS OF BANK GROUP OPERATIONS IN AFGHANISTAN

A. STATEMENT OF IDA CREDITS  
(As of January 31, 1977)

Credit Number	Year	Borrower	Purpose	US\$ Million	
				Amount IDA	Undisbursed
158	1969	Afghanistan	Highway Maintenance	5.0	fully disbursed
202	1970	Afghanistan	Agricultural Credit I	5.0	fully disbursed
<del>68<sup>1/</sup></del>	1964	Afghanistan	Education	3.5	
248.0	1971	Afghanistan	Irrigation	5.0	1.2
248.1	1976	Afghanistan	Irrigation	10.0	9.8
374	1973	Afghanistan	Aviation Communications	2.5	1.3
375	1973	Afghanistan	Livestock	9.0	3.0
380	1973	Afghanistan	IDBA	2.0	1.7
449	1973	Afghanistan	Highway Maintenance	11.5	4.1
539	1975	Afghanistan	Agricultural Credit II	13.0	2.3
563	1975	Afghanistan	Kabul Water Supply and Sanitation	9.0	8.7
627	1976	Afghanistan	Thermal Power	10.0	0.1
649	1976	Afghanistan	Livestock	15.0	14.3
674	1976	Afghanistan	Education II	6.0	5.9
721	1977	Afghanistan	Agricultural Credit III	12.0	12.0
<b>TOTAL</b>				<u>118.5</u>	
of which has been cancelled				<u>3.5</u>	
Total now outstanding and held by IDA				115.0	
Total undisbursed					64.4

B. STATEMENT OF IFC INVESTMENTS  
(As of January 31, 1977)

Investment Number	Year	Institutions	Loan		
			Equity	Total	
243	1973	Industrial Development Bank of Afghanistan	-	0.3	0.3
Total gross commitments, less cancellations, terminations, repayments and sales.			-	0.3	0.3
Total undisbursed			-	-	-

<sup>1/</sup> Credit No. 68 for an Education Project in 1964 was cancelled at the Government's request in 1970. \$0.3 million which had been disbursed for the project was consolidated under Credit 248.

NOTE: Exchange adjustment not included.

C. PROJECTS IN EXECUTION

Cr. No. 248 - Khanabad Irrigation Project: US\$5 million Credit of June 11, 1971; Effective Date: December 22, 1972; and \$10 million Supplementary Credit of January 12, 1976; Effective Date: April 19, 1976; Closing Date: June 30, 1979.

Project consultants have been in the field since 1973. The project implementation was delayed by 18 months because of the Afghan government's preoccupation with internal political matters and subsequent change in the government. The project remained justifiable economically and appropriate in the context of the Government's development strategies in the north. The Government has awarded the major civil works contract to a local public corporation after international competitive bidding. The corporation has autonomous power in recruiting expatriate staff, purchase of foreign equipment, payment of salaries to local staff, etc. The construction works at the barrage site have been making satisfactory progress, and are expected to be completed by December 1978 with the final disbursements made by June 30, 1979.

Cr. No. 374 - Aviation Project: US\$2.5 million: Credit of May 2, 1973; Effective Date: November 26, 1973; Closing Date: June 30, 1979.

The contractors engaged to construct and equip the new Flight Information Center (FIC) in Kabul began work in July 1975 and construction works have almost been completed. The cost overrun of \$2.5 million caused by the delay has been financed through a bilateral agreement with the Iranian Government. The engineering consultants financed under the project provided the final Logar Airport Master Plan in May 1975 and the plan was accepted in principle by the Cabinet in September 1975. However, final engineering and construction of the Airport is being delayed until suitable financing can be found. The institutional improvements required under the Credit Agreement have been initiated but lack the final Government approval. Therefore, they have not yet been put into effect.

Cr. No. 375 - Livestock Development Project: US\$9.0 million Credit of May 2, 1973; Effectiveness Date: March 21, 1974; Closing Date: September 30, 1978.

The project provides credit through the Agricultural Development Bank to the Herat Livestock Development Company to increase sheep production for export, mainly to Iran. Inputs financed include groundwater development for fodder production on about 1,200 farms, a slaughterhouse, a demonstration farm, an experimental range improvement center and infrastructure development. The slaughter house was completed in October 1977; the running-in period ended on January 4, 1978, and the plant is fully operational. The project is now at a crucial stage. The initial sales contract is being negotiated; however, the volume of sheep processed is low, and measures are being taken to increase the supply of sheep. Progress of the on-farm development component of the project has been generally satisfactory following the implementation of a set of modified loan security requirements in late 1975. The Herat Livestock Development Company sent its first group of technicians abroad for training in May 1977. An outstanding project feature is the

success of the Experimental Range Improvement Centre in conducting surveys which have resulted in the accumulation of a wealth of information on range productivity, movement of nomadic flocks, and flock production data which will be of value in formulating future livestock range management projects. The credit is expected to be fully disbursed by June 30, 1979.

Cr. No. 380 - Industrial Development Bank of Afghanistan IDBA Project: US\$2.0 million, Credit of May 15, 1973; Effective Date: November 20, 1973; Closing Date: December 31, 1978.

In September 1976, the Board approved that the entire \$2 million credit originally made for several sub-project could be used for one public sector project, namely the Badghis Cotton Ginning. Inaction by the Government, partly because of the promulgation of the new constitution in February 1977, has delayed the project. A supervision mission visited Afghanistan in June 1977, and soon after that visit, the Minister of Mines and Industries took action to begin project implementation. As a result, positive developments have taken place, and the equipment has been contracted. Twenty percent of the credit has been disbursed as a downpayment for the equipment contracted, and the remainder is expected to be fully disbursed by early 1979. Despite the delay, project cost overruns are expected to be minimal.

Cr. No. 449 - Second Road Improvement and Maintenance Project: US\$11.5 million Credit of December 21, 1973; Effective Date: June 10, 1974; Closing Date: June 30, 1978.

The project includes improvement and maintenance of roads, purchase of equipment and materials, construction of a highway maintenance center, and technical assistance. Equipment and spare parts for highway maintenance and improvement are being delivered. Construction of the Kabul maintenance center has begun. A new president of the project executing department was appointed in January 1978.

Cr. No. 539 - Second Agricultural Development Bank Credit: US\$13.0 million Credit of April 25, 1975; Effective Date: July 24, 1975; Closing Date: December 31, 1979.

The credit is proceeding in a generally satisfactory way with disbursements and commitments now ahead of schedule. Final disbursement is expected by end March 1978. There had been delays in appointments to key senior and middle management positions, but now all of these except for the Vice President for Finance have been filled. The operation and management of the Bank has not been unduly affected by these delays. The Supply Department of AgBank is being separated from AgBank to form the Agricultural Machines and Services Company (AMSCO) which will be responsible for providing mechanical services for tractors and agricultural machinery. The Charter of AMSCO is under consideration by the Board of Directors of AgBank and is expected to be approved soon. The rundown in Supply Department activities involving inter alia unsatisfactory after sales service for credit financed for machinery, and unnecessary procurement delays is causing some concern. The Afghan Fertilizer Company has now acquired legal title to all 69 sites for warehouses, and has completed 22 warehouses, with a further 22 now under construction.

Cr. No. 563 - Kabul Water Supply and Sanitation Project: US\$9.0 million  
Credit of June 23, 1975; Effective Date: December 23, 1975; Closing Date:  
December 31, 1980.

Project progress remains satisfactory and major contracts for pipe supply and pumping equipment have been awarded; 10,000 water meters purchased under the credit have been delivered. Civil works bid documents have been completed and bidding is now in progress. The water and sewerage authority continues to expand and consolidate its management capability with help from Consultants and a financial advisor. Revised billing and collection procedures have been defined and are being considered for early implementation. The associated Afshar project financed by Germany is using pipes with the same specifications as under the IDA project, thus benefitting from the bidding results of the IDA project.

Cr. No. 627 - Thermal Power Project, US\$10.0 million, Credit of May 17, 1976;  
Effective Date: November 10, 1976; Closing Date: June 30, 1979.

The project consists of construction of a gas turbine station to supply electric power for Kabul. The project entity has taken vigorous actions to reduce its energy loss and improve its financial position by disconnecting illegal consumers and non-paying customers, discharging some inefficient employees, relocating some staff and changing billing methods. After some initial difficulties, the physical progress is now satisfactory. However, the Government approval of a revised charter of the project entity, a work program for consultants' studies and a five year program for further reduction of energy losses has been delayed about one year. A new president of the project entity has recently been appointed.

Cr. No. 649 - Second Livestock Development Project, US\$15.0 million, Credit  
of June 28, 1976; Effective Date: September 27, 1976; Closing Date:  
December 31, 1982.

The project aims at increasing sheep production, mainly for export, and improving the flocks and incomes of village, semi-nomadic, and nomadic flockowners through the provision of improved animal health services and credit for groundwater development and forage production. Financing is provided to establish about 14 Sheep Improvement Centers, a Heavy Equipment and Water Supply Division, 2 range field stations, consultant services and training, and a wool scouring plant study. A promising start has been made on project implementation, and 4 sites for the Sheep Improvement Centers have been identified. The consultants have been appointed and mobilized. Tenders have been received and evaluated for the supply of 42 project vehicles and contracts have since been awarded; contracts for the supply of drilling machinery, road maintenance equipment and vehicles have also been awarded; and field surveys of the project area are being continued by HLDC in an attempt to select the most appropriate sites for establishing the Sheep Improvement Centers and the 2 range field stations.

Cr. No. 674 - Second Education Project, US\$6.0 million, Credit of January 7, 1977; Effectiveness Date: March 31, 1977; Closing Date: April 30, 1982.

The project will help to meet the urgent need for middle-level agricultural extension agents and introduce a more practical agricultural curriculum and field training facilities. Four new agricultural secondary schools will be constructed and three existing ones will be expanded under the project. It will also finance pre-investment designs for a possible follow-up project. The agricultural teacher training program is making good progress. The consultants have completed the detailed designs for the project schools. Bid documents have been finalized and expected to be ready by April 1978. Final steps are being taken to recruit an architect and an engineer for the project unit which is functioning satisfactorily.

Cr. No. 721 - Third Agricultural Credit Project; US\$12.0 million, Credit of June 20, 1977; Effectiveness Date: September 20, 1977; Closing Date: March 31, 1982.

The project will continue the program begun under the 1st and 2nd Agricultural Credit projects of providing credit assistance to farmers for a wide range of short, medium and long term productive investments. A special feature, introduced on a pilot basis is a component providing for 'package loans' to previously landless farmers settled on Government developed land. As part of the credit AgBank has begun to vigorously implement an agreed program for upgrading the status and standard of branch offices and staff, and to delegate more authority to both lower echelon headquarters staff and branch directors. Steps are also being implemented to further improve the 'fertilizer program' by which AgBank makes about 60,000 short term loans annually for fertilizer and productive inputs to farmers, including large number of smaller land owners.

AFGHANISTAN

SECOND KHANABAD IRRIGATION PROJECT

SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

- |  |   |
|--|---|
| (a) Project first identified by IDA:                       | October 1975  |
| (b) Time taken by the country to prepare the project:      | Twelve months (from March 1976 to February 1977)      |
| (c) Agency which has prepared the project:                 | Water and Power Development Consultancy, Ltd. (India) |
| (d) Date of the first IDA mission to consider the project: | May 1976  |
| (e) Date of departure of Appraisal Mission:                | March 3, 1977   |
| (f) Date of completion of negotiations:                    | January 25, 1978                                      |
| (g) Planned date of effectiveness:                         | July 25, 1978   |

Section II: Special Bank Implementation Actions

An IDA mission for the preliminary review of the irrigation sub-sector is visiting Afghanistan in October 1977 to discuss, inter alia, the expansion of the Khanabad Coordination Committee, the establishment of an effective extension service system and the cost recovery study.

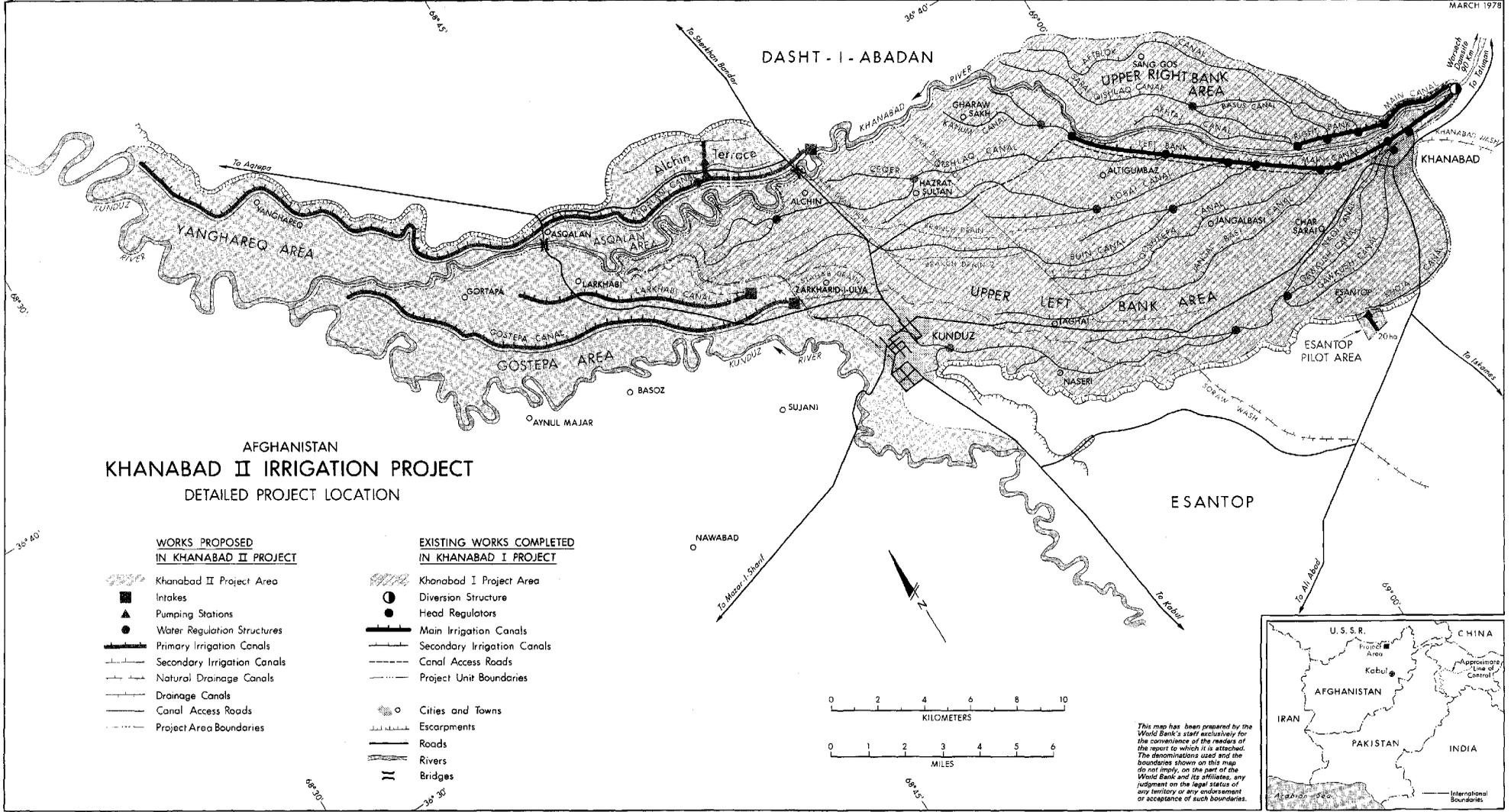
These and other project matters will be closely monitored by the Resident Representative in Kabul and through frequent, issue-oriented missions.

Section III: Special Conditions

1. Special conditions of effectiveness of the IDA credit are as follows (para. 64):
  - (a) The execution and delivery of the Project Agreement on behalf of AgBank have been duly authorized or ratified by all necessary corporate and governmental action; and
  - (b) The execution of the Subsidiary Agreement on behalf of the Borrower and AgBank, respectively, has been duly authorized or ratified by all necessary corporate and governmental action.
2. Other special conditions are:

- (a) no disbursement would be made from the proposed credit for the malaria control program component of the project until a satisfactory malaria control program has been furnished to the Association (para 65).
- (b) the Ministry of Water and Power would employ, by July 31, 1978, engineering consultants, whose qualifications, experience and terms and conditions of employment would be satisfactory to IDA (para 41);
- (c) the Khanabad Extension Unit would be established by December 31, 1978, and would be headed by a Director with suitable qualifications and experience (para 42);
- (d) the Ministry of Agriculture would employ, by September 30, 1978, suitable agricultural consultants whose qualifications, experience and terms and conditions of employment would be satisfactory to IDA (para 43);
- (e) AgBank would, by March 31, 1979, upgrade its office in Kunduz to Type I branch office and would increase its staff as required (para 44);
- (f) (i) land surveys, settlement of disputes and registration of land would be carried out in the project area in accordance with the Land Reform Law and the Land Survey Law; (ii) necessary steps would be taken to make available to the project farmers, whether land owners or not, an adequate volume of short term agricultural credit; and (iii) by December 31, 1980 the land to be irrigated on the Alchin Terrace would be distributed in individual parcels in accordance with the Land Reform Law and the Land Survey Law (para 48); and
- (g) (i) by September 30, 1979, pursuant to terms of reference acceptable to IDA, a study supplementary to the study carried out under the first Khanabad Project would be completed in order to analyze and recommend measures which could be taken for the recovery of operation, maintenance and investment costs of the works provided under both Khanabad projects; (ii) by December 31, 1979, the supplementary study would be furnished to IDA along with Government's comments; (iii) Government would exchange views with IDA on the recommendations made in the supplementary study and make such modifications to these recommendations as appropriate. Following IDA's agreement on the steps required to implement these recommendations, Government would take such steps in accordance with a program acceptable to IDA; and (iv) until such time as above steps have been implemented, Government would continue to carry out its indirect cost recovery policies and mechanisms with respect to land taxation and the generation of revenues from the marketing of cotton as in force on January 1, 1978 (paras. 56, 57 and 58).





AFGHANISTAN  
**KHANABAD II IRRIGATION PROJECT**  
DETAILED PROJECT LOCATION

**WORKS PROPOSED  
IN KHANABAD II PROJECT**

- Khanabad II Project Area
- Intakes
- Pumping Stations
- Water Regulation Structures
- Primary Irrigation Canals
- Secondary Irrigation Canals
- Natural Drainage Canals
- Drainage Canals
- Canal Access Roads
- Project Area Boundaries

**EXISTING WORKS COMPLETED  
IN KHANABAD I PROJECT**

- Khanabad I Project Area
- Diversion Structure
- Head Regulators
- Main Irrigation Canals
- Secondary Irrigation Canals
- Canal Access Roads
- Project Unit Boundaries
- Cities and Towns
- Escarpments
- Roads
- Rivers
- Bridges

0 2 4 6 8 10  
KILOMETERS

0 1 2 3 4 5 6  
MILES

*This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.*

