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REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED DEVELOPMENT CREDIT
TO THE
KINGDOM OF AFGHANISTAN
FOR THE
LIVESTOCK CREDIT PROJECT

March 8, 1973

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INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A
PROPOSED CREDIT TO THE
KINGDOM OF AFGHANISTAN FOR A
LIVESTOCK DEVELOPMENT PROJECT

1. I submit the following report and recommendation on a proposed development credit to the Kingdom of Afghanistan for the equivalent of US\$ 9.0 million on standard IDA terms to help finance a livestock development project in the Herat region. The project would include farm development for raising sheep, provision of a range improvement center, construction of a slaughterhouse, some minor road improvement, and technical assistance for each of these components. The equivalent of US\$ 5.6 million of the proposed development credit would be onlent to the Agricultural Development Bank of Afghanistan at 4½ percent for 15 years including 5 years grace, to be relent for the purposes of the project.

PART I - THE ECONOMY

2. An economic report entitled "Current Economic Position and Prospects of Afghanistan" (SA-29a) dated February 1, 1972 was distributed to the Executive Directors in February 1972 (R72-39 and R72-42). More recent information on the economy was obtained by an updating mission to Afghanistan in September 1972 and is reflected in the following paragraphs. Country data are provided in Annex I.

3. Afghanistan has been a consitutional monarchy since 1930 and adopted a new constitution in 1964. The new constitution expanded the role of parliament, and Afghanistan is now in the process of developing an effective working relationship between the legislative and executive branches of government. In December 1972, after an uncertain two and one half month period following the resignation of the former Government, a new Government took office under H. E. Mohammed Moussa Shafiq as Prime Minister. Before appointment of the new Government and while the previous Government remained in office at the request of the King, the Parliament acted on a number of long pending items. These included approval of the national budget and ratification of a number of external loans, one of which was the IDA credit for the Khanabad Irrigation Project.

4. With some 15 million inhabitants, Afghanistan is the most populous landlocked country in the world, and its estimated per capita income of about \$80 makes it one of the poorest. The country is also one of the most populous of the 25 countries designated as "least developed" by the United Nations. Agriculture predominates in the national economy (contributing

over 50 percent to GDP) but is highly dependent upon the vagaries of the country's continental climate. Although efforts are being made to develop gas production, manufacturing and tourism, the economy remains essentially agricultural and future growth will depend largely upon progress in this sector. The economy's problems were aggravated recently by two years of severe drought in 1970 and 1971, causing agricultural output to decline by 15 percent in 1970 and by a further 8 percent in 1971. The two successive drought years were followed by a severe winter in 1971/72. Because of limited data it is difficult to measure the outcome of these developments on national income figures. Preliminary estimates, however, indicate a decline in per capita income during these two years, and a rather slow recovery, despite improved weather conditions in 1972.

5. The Government's ability to mobilize domestic resources for development is also severely limited. Total government revenues in 1971/72 (fiscal year ending in March) were only \$73 million, or about \$5 per capita. Agriculture and livestock, the main sources of wealth and income, are not taxed directly. The livestock tax was suspended in 1966, and the land tax amounts to less than 2 percent of total tax revenues. Moreover, it will be difficult to raise additional revenues from livestock owners and farmers until they begin to receive more direct benefit from development programs than has been true in the past.

6. Despite its limited domestic fiscal resources, Afghanistan in the early 1950's ended a long period of isolation from the outside world and embarked upon an ambitious investment program amounting annually to between 10 and 15 percent of the country's national income. Supported by loans and grants from bilateral donors, the program was directed at establishing the basic economic and social infrastructure of a modern society -- roads, power plants, major reclamation and irrigation schemes, hospitals, schools and urban housing projects. Over the past 22 years, the Government has contracted foreign loans amounting to some \$820 million (including \$134 million undisbursed), while an additional \$560 million was received in grants. Partly because many of these infrastructure investments were characterized by long gestation periods, and had little immediate beneficial effect on the balance of payments, they have not given rise to a growth in debt servicing capacity equal to the growth in obligations incurred. There is now an increasing awareness in Afghanistan of the need to re-orient the development strategy towards quicker yielding projects and towards better utilization of the capacities created by two decades of infrastructure investment.

7. As a consequence of large scale foreign borrowing, Afghanistan faces an increasingly serious debt service problem. Project aid disbursements declined sharply from a peak of \$75 million per annum in 1966/67 to less than \$30 million in 1971/72. During the same period annual debt service payments have increased from \$7 million to \$28 million, with a

resulting decline in net capital transfers (excluding commodity aid, mainly food) from \$68 million in 1966/67 to \$2 million in 1971/72. Over 20 percent of the Government's revenues were budgeted for debt service in 1971/72, and debt service is estimated to have absorbed about 29 percent of export earnings in 1972/73. Afghanistan has recently concluded an agreement with the USSR to reschedule \$30 million of \$135 million in debt service obligations due on existing debt during the next five years, and repayment of the remaining \$105 million is expected to be linked closely with the export of natural gas. Obligations due to Western creditors during the same period are about \$64 million, and the Government has asked these creditors to consider rescheduling a portion of the payments. Without such rescheduling, and including additional servicing of newly contracted debt, Afghanistan's debt service payments during the next five years are projected at an average of \$39 million annually compared with exports (including invisibles) averaging about \$110 million each year during the same period. Because of its poverty and debt burden, the country does not have the capacity for servicing additional debt on conventional terms. In light of recent efforts to improve economic performance, however, Afghanistan is eligible for and is expected to make good use of additional IDA financing.

8. The Government has requested the Bank to act as Executing Agency for a UNDP-funded Development Advisory Group project, and this proposal is now being considered by the Bank and UNDP. The proposed Advisory Group would assist the Government in formulating both national economic strategy and specific sectoral policies, programs and projects. In a related development, the Government has also announced its intention of introducing changes in the development machinery of the country and of strengthening the role of the Prime Ministry in the entire economic process. These two efforts would do much to overcome weaknesses in Afghanistan's development machinery. Partly because earlier efforts in development assistance and project implementation were carried out largely by teams provided by bilateral donors, they had little training value or institution-building impact. The proposed advisory group would consist of a nucleus of three or four full-time advisors working closely with counterparts in the Government; this nucleus would be supplemented by specialists on short-term assignments to assist Afghan agencies with particular development proposals.

PART II - BANK GROUP OPERATIONS IN AFGHANISTAN

9. The Bank Group has made four development credits totalling US\$15.0 million (net of cancellations) to Afghanistan. These credits were for education in 1964 (only \$0.3 million disbursed and recently refunded under the Khanabad Irrigation Credit), highway maintenance (\$5.0 million) in 1969, agricultural credit (\$5.0 million) in 1970, and Khanabad irrigation

(\$5.0 million) in 1971. Annex II contains a summary statement of IDA credits to Afghanistan as of February 28, 1973, and notes on the execution of the on-going projects, with particular reference to the problems imposed by the recent drought. There have been no IFC investments in Afghanistan, but a small equity investment in the recently established Industrial Development Bank of Afghanistan is being considered.^{1/}

10. Afghanistan became a member of the Bank in 1955, but because of its economic structure and poverty, financing on standard Bank terms was deemed inappropriate. In 1961, Afghanistan joined IDA and a \$3.5 million credit for education was approved in 1964; but the project ran into various difficulties, and, by mutual agreement between the Government and IDA, the major portion of the credit was cancelled in 1969. Thereafter, staff time and effort (including that of a resident mission established in Kabul in 1969) have been devoted largely to projects to improve agricultural and industrial production as well as highway maintenance, air transportation, and tourism.

11. The Bank Group's lending strategy recognizes that special efforts will be required to help Afghanistan in view of its landlocked position, its extreme poverty, its shortage of physical resources and trained manpower, its political situation, and its difficult economic problems. Considerable assistance will, therefore, be required in preparing and implementing projects. The IDA staff aims to finance two or three projects each year which, in addition to their developmental and institution-building impact, would be geared to increasing production and to alleviating the critical foreign exchange shortage. In order to ensure sound project implementation, institutional development, and training of Afghan counterparts, technical assistance will continue to be an integral feature of most projects.

12. An aviation communications project and a project for fostering industrial investments through the new Industrial Development Bank are likely to be ready for consideration of the Executive Directors before June 30, 1973. A tourism development project -- for which the detailed design and engineering work will be initiated shortly with UNDP financing and the Bank as executing agent -- is expected to be ready in FY74. A second road maintenance project is likely to be appraised in the Spring of 1973, and to be ready for presentation to the Executive Directors in FY74. Preparatory work has also been initiated on other agricultural and public utilities projects. During FY74 IDA intends to undertake a manpower review in conjunction with an education reconnaissance mission to explore the possibility of future assistance for education.

^{1/} IDBA was established March 3.

PART III - THE SECTOR AND THE PROJECT

The Agricultural Sector

13. Agriculture is the key sector in the economy of Afghanistan. Over 80 percent of the population depends upon it for their livelihood, and it accounts for over 50 percent of GDP and 70 percent of exports. Afghanistan's harsh climate, rugged topography, and poor natural resource endowment impose serious obstacles to development of this sector. The continental climate, with its hot, dry summers and cold winters, limits the growing season and necessitates extensive irrigation. Rugged mountains and deserts account for about 80 percent of Afghanistan's 635,000 square kilometers, and much of the remaining land is unsuitable for agriculture without irrigation. About half of the roughly 5 million hectares currently under cultivation must be irrigated. Traditional farmers rely upon either seasonal diversion of river water or ancient, underground canal systems, and many farmers leave up to half of their land fallow for lack of an assured water supply. Afghanistan's dependence upon inadequate irrigation systems makes its agriculture vulnerable to drought such as the one experienced in 1970 and 1971, during which production in the sector declined by over 20 percent. Such periods followed by characteristically cold winters cause particular hardships for the predominantly rural population. The few large-scale irrigation projects undertaken in Afghanistan have required substantial investment and long gestation periods, and they are only now beginning to yield results.

14. Wheat is Afghanistan's staple crop and is grown on up to 90 percent of the cultivated land. The country normally produces about 3 million tons and imports another 100,000 to 200,000 tons of wheat each year. During the recent drought, however, production declined appreciably and wheat imports exceeded 400,000 in both 1970 and 1971. Other crops, including barley, rice, cotton, sugar beet, and assorted fruits, nuts and vegetables, are produced in much smaller quantities. Dried fruits and nuts account for 34 percent of agricultural exports, and wool and skins (including karakul -- Persian lamb -- pelts) for another 32 percent.

15. As is the case in many developing countries, the agricultural sector in Afghanistan faces a number of institutional constraints which the Government is attempting to relieve. These include insufficient but improving credit facilities, inadequate extension services, and limited supply and distribution of seeds, fertilizers and other essential farm inputs. The task of improving credit services was begun in 1969 with the reorganization and strengthening of the Agricultural Development Bank of Afghanistan (AgBank) in conjunction with the IDA Agricultural Credit Project. With the assistance of the United States Agency for International Development, a government fertilizer corporation has also been established recently to improve the supply and distribution of fertilizers. Two new institutions, dealing with national livestock policy and project execution, would be established in conjunction with the proposed project (see paragraphs 25 and 26). The Government is also developing pricing and marketing policies, particularly for cotton, pelts and meat, aimed at stimulating agricultural output.

The Livestock Sub-Sector

16. About two-thirds of Afghanistan's population is engaged in some form of livestock raising, and the livestock sub-sector contributes 10 percent of GDP and 24 percent of exports. Sheep dominate the sub-sector with a national herd estimated about 22 million animals before losses during the recent drought (see paragraph 18); cattle and goats account for only 3.7 and 3.2 million animals respectively. Mutton and wool sheep predominate in the regions south of the Hindu Kush divide, and karakul (Persian lamb) sheep are raised in the north.

17. Despite its importance in both the agricultural sector and the national economy, the livestock sub-sector faces a number of serious problems. While karakul producers have been doing reasonably well under the leadership of the Karakul Institute (a non-profit organization), herdsman and farmers who raise meat and wool sheep have lacked similar guidance and support. The problems facing these producers include insufficient water supply, overgrazed pastures, widespread disease and malnutrition (especially in winter and Spring), primitive animal husbandry and breeding techniques, and inadequate market outlets. The proposed project would address these problems in the important Herat region which contains about one-fourth of the national sheep herd.

18. The problems of the livestock sub-sector were particularly evident during the recent drought. Low prices and the traditional practice of retaining sheep as a store of wealth against hard times has led to serious over-grazing of Afghanistan's range land. As a result, sheep producers live with a precarious balance between water and feed supply on the one hand and the size of the sheep herd on the other. Their vulnerability was demonstrated during the drought of 1970 and 1971, and in the severe winter of 1971/72 which followed, when flock losses estimated at 40 to 70 percent (compared with normal losses of 20 to 30 percent) were reported in some areas. Many farmers, faced with the prospect of a severe winter without sufficient feed, slaughtered an excessive number of animals, particularly in the summer and fall of 1971. In August 1971, exports of live animals and meat were legalized in an attempt to recoup something from this difficult situation and to take advantage of much higher prices of meat prevailing in neighboring countries. Fortunately, the regenerative capabilities of the remaining sheep are such that the losses can be replaced within a few years. The challenge in the livestock sub-sector is, then, to reduce the vulnerability of herdsman and farmers to similar disasters in the future, and to provide them with credit, other inputs, technical guidance and marketing outlets which would contribute to the growth of this critical sub-sector of the economy.

Project History

19. The proposed project was identified by an FAO/IDA mission and prepared by the FAO/IBRD Cooperative Program. Appraisal took place in June 1972. Negotiations were held in Washington between February 2 and February 14, 1973. The Afghan delegation, headed by His Royal Highness Sultan Mahmoud Ghazi, included Mr. Ali A. Khoram, Deputy Minister of Planning, Mr. Abdul Samad Khaliki, representing the Ministry of Finance, Mr. Habib Seraj of the Ministry of Agriculture, and Messrs. Abdul Salim Saidi and Joseph Duester of the AgBank.

The Project

20. The proposed project consists of the development of (i) about 1,200 sheep fattening and breeding farms in Herat Province, (ii) the establishment of an Experimental Range Improvement Center, (iii) the upgrading of about 68 Kms of access roads, (iv) the construction of a slaughterhouse in Herat which would purchase the output of project farms and export meat to neighboring countries and (v) provision of technical assistance to assure efficient implementation of each of the project elements. The project would be located in Herat Province to take advantage of the region's sizeable traditional sheep herd and its proximity to the rapidly growing Iranian market for mutton and lamb. Farmers in the area are already growing some alfalfa for fattening sheep, but they are constrained by insufficient water, credit, seeds, fertilizers, slaughtering facilities, and market organization. Annex III presents the major features of the proposed project. The Appraisal Report (Report No. 56AF) is being circulated separately to the Executive Directors.

21. As part of the proposed project, credit would be extended to about 1,200 sheep farmers who would grow alfalfa for fattening and breeding sheep. Although there are a few large landowners in the project area, the main recipients of credit would be farmers with relatively modest holdings on farms averaging about 13 hectares each. Farm credits would include funds for groundwater development (dug-wells, pump-sets and distribution systems), establishment of alfalfa for sheep fattening, and the purchase of draft animals and breeding stock. With a more assured water supply, project farmers could cultivate their entire holdings throughout the growing season instead of leaving up to half of their land fallow for lack of water as is now the practice. The project would also provide for the establishment of a 174 hectare demonstration and sheep fattening farm belonging to the Herat Livestock Development Company (HLDC). This farm would be used to demonstrate alfalfa production methods to project farmers as well as to produce feed for use in breeding, fattening and holding sheep for slaughtering.

22. The project would also include a slaughterhouse to be owned and operated by HLDC. At full, double-shift capacity, the slaughterhouse would process 3000 sheep daily. Fattened sheep would be purchased from project farmers, and fresh, chilled meat would be exported to Iran and other neighboring countries. The project would also include the establishment of a Technical Service Unit to provide extension services to project farmers and an Experimental Range Improvement Center to develop and demonstrate improved range management practices which could subsequently be extended to cover a wider area.

Project Costs

23. The estimated total cost of the proposed project is \$11.0 million, of which the foreign exchange component is about \$6.7 million, or roughly 61 percent. Farm development amounts to \$2.7 million of total project costs. Slaughterhouse design, construction and equipment including contingencies are expected to cost \$4.2 million, exclusive of transport equipment, working capital, engineering and supervision which amount to another \$1.3 million. The Experimental Range Improvement Center is estimated to cost \$0.4 million, technical services including international experts about \$2.3 million and some minor road improvements \$0.1 million. The proposed credit of \$9.0 million would finance 82 percent of project costs including \$2.3 million or 51 percent of local costs, with participating farmers, AgBank and the Government financing the remaining \$2.0 million in local costs.

Organization and Arrangements for Channelling Project Funds

24. The project would rely on the AgBank as an onlending channel for IDA funds. The AgBank was reorganized and its management substantially improved with the assistance of international management experts as part of the IDA agricultural credit project in 1969 (see Annex II). After evaluating the financial and technical aspects of farm development plans, AgBank would onlend project funds for farm development to farmers participating in the project. It would also serve as the administrative channel for IDA funds to be used by HLDC.

25. HLDC, which is being established with Bank Group assistance as a joint stock company, under the Commercial Code, would execute all except the agricultural credit portion of the project. A Bank Group lawyer visited Afghanistan in December 1972 to assist in establishing HLDC, and the Government has agreed in principle with the major provisions to be included in the Articles of Incorporation for the company. HLDC is expected to be incorporated within a few weeks and, in any event, before signing of the credit. The Government is also taking steps to acquire land for HLDC's slaughterhouse and farm. With the assistance of nine internationally recruited experts, HLDC would (a) establish and operate the project slaughterhouse (b) develop export markets for mutton and lamb from the project, (c) establish and operate the demonstration farm, and

(d) establish and operate on behalf of the Government the Technical Service Unit and the Experimental Range Improvement Center. The international experts for each of these activities would provide their counterparts with practical training which would be supplemented by a number of fellowships for study abroad. HLDC would have a Board of Directors which is expected to delegate most operational responsibility to a management board composed of the principal officers of the company. Although it will be incorporated as a wholly Government-owned company, HLDC will offer its share at par to the general public with the objective of ultimately extending private holdings in HLDC to about 49 percent.

26. The Government also intends to establish a National Livestock Development Commission (NLDC) in conjunction with the project. As distinct from the project entity, NLDC would consist of several prominent members of the Government and would recommend national policies for the livestock sub-sector to the Government. In this respect, NLDC is expected to perform for the meat industry some of the functions which the Karakul Institute has undertaken on behalf of the karakul industry.

27. The Government would onlend \$5.6 million of the proposed credit to AgBank at $4\frac{1}{2}$ percent interest for a 15-year period (including 5 years grace) for on-farm development (\$1.6 million) and for constructing and equipping the slaughterhouse (\$4.0 million). AgBank's relending for onfarm development would be at 8 percent interest for a period of up to seven years (including grace of up to two years), and relending for slaughterhouse construction would be at 8 percent for 15 years (including 5 years grace). The $3\frac{1}{2}$ percent spread to the AgBank is considered adequate to cover its administrative costs and to compensate it for services in respect of the project. A relending interest rate of 8 percent to the participating farmers and to HLDC is considered reasonable. The average loan to project farmers is likely to be about \$2,300 for fattening/breeding and \$1,900 for fattening farms. For each farm development investment, about 20 percent would come from the AgBank, 20 percent from the farmers and the balance of 60 percent would be provided from the proceeds of the proposed credit. The AgBank would also provide complementary short-term financing at 10 percent for farm development and the slaughterhouse.

28. The Government's equity investment in HLDC would be \$2.5 million of which \$1.7 million would be provided from IDA funds disbursed for slaughterhouse investment expenditures. The AgBank would serve as administrative channel for these funds. The remaining \$1.7 million of IDA funds would also be channelled through the AgBank as grants for technical assistance (\$1.4 million), establishment of the Experimental Range Improvement Center (\$0.2 million), and minor road improvements (\$0.1 million). The AgBank would charge no commission or fee for administration of the equity and grant funds channelled to HLDC.

Procurement and Disbursement

29. Contracts for constructing and equipping the slaughterhouse on a turnkey basis and for the supply of slaughterhouse transport equipment would be awarded on the basis of international competitive bidding. Specifications for the slaughterhouse are being started as soon as possible. All farm development inputs will be procured locally by project farmers. The expert services for the slaughterhouse, farm development and Experimental Range Improvement Center would be awarded on the basis of the Bank and IDA guidelines for use of consultants.

30. The IDA credit would be disbursed over a 4½ year period for 75 percent of disbursements made by the AgBank for farm development, 85 percent of total expenditures on the turnkey contract for the slaughterhouse, 85 percent of expenditures for the Technical Service Unit, the Experimental Range Improvement Center and road improvement, and 100 percent of the foreign exchange cost of transport equipment and international experts.

Market and Rate of Return

31. At full development in 1981, the HLDC slaughterhouse is expected to produce 7,200 metric tons of mutton and lamb for export. Initially, most meat from the project will be sold in Iran where 1970/71 consumption of mutton and lamb is estimated to have been 275,000 metric tons. Iranian production has lagged behind consumption, necessitating imports of about 22,000 metric tons in 1970/71. Despite efforts to develop its livestock industry, Iran is likely to continue to import for at least 15 years. Even with a conservative five percent projection of growth in demand for mutton and lamb in Iran, meat from the proposed project at full production in 1981 would amount to less than a two percent share of the Iranian market. Annual consumption of mutton and lamb in Tehran is estimated at 50,000 metric tons with a future growth rate in demand estimated at between 5.7 and 8.7 percent annually. Even if the Tehran market were to grow at the more conservative rate, HLDC would need less than a nine percent market share to sell its entire output. It is not expected, however, that HLDC would sell in only one market. Buyers supplying Kuwait and other Gulf States have already approached the Government with offers to purchase up to 4,000 metric tons of meat annually, and HLDC would establish markets in these countries.

32. The financial rates of return for the farm development portion of the project range from a low of 17 percent to a high of 38 percent, based on pessimistic and optimistic assumptions, with the most likely rate around 28 percent. The financial return for the slaughterhouse is estimated to be about 15 percent after taxes. At full development in 1981, the additional tax income accruing to the Government, particularly from income taxes and export taxes on hides and casings, would be around Af 24 million (\$280,000) a year. The project would increase Afghanistan's gross export earnings from

livestock by \$7.7 million annually. After adjustments for fertilizers, spare parts, and other necessary imports, annual net export earnings are likely to be about \$7 million.

33. The project would add some 2,800 metric tons annually to the meat production of Afghanistan. The farm development program would also enable participating farmers to produce 2,300 more tons of wheat, 3,600 more tons of seed cotton and 1,600 more tons of mung beans. At full production the project would also increase employment opportunities in Herat Province by over 10,000 jobs not taking into account the indirect effect on employment, through the use of locally made construction materials, salt, coal and other inputs, or the income effects of the project. Economic rates of return are estimated to be at 37 percent for farm development, 18 percent for the slaughterhouse and 22 percent for the project as a whole.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

34. The draft Development Credit Agreement between the Kingdom of Afghanistan and the Association, the draft Project Agreement between the Association, the Herat Livestock Development Company, the Agricultural Development Bank of Afghanistan, the Report of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement, and the text of the resolution approving the proposed credit are being distributed to the Executive Directors separately. The draft agreements conform to the normal pattern of credit agreements for livestock projects.

35. I am satisfied that the proposed development credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

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

Robert S. McNamara
President
By J. Burke Knapp

Attachments
Washington, D.C.
March 8, 1973

COUNTRY DATA - AFGHANISTAN

<u>AREA</u>	<u>POPULATION</u>	<u>DENSITY</u>
635,000 sq.km.	14.6 million (mid-1971) Rate of Growth: 2% (from 1960 to 1970)	22 per sq.km. 100 per sq.km. arable land

POPULATION CHARACTERISTICS (1971)

Crude Birth Rate (per 1,000)	50.5
Crude Death Rate (per 1,000)	26.5
Infant Mortality (per 1,000 live births)	..

HEALTH (1969)

Population per physician	20,700 (1969)
Population per hospital bed	6,800 (1969)

NUTRITION (1964-68)

Calorie intake as % of requirements	88% (1964-68)
Per capita protein intake (grams)	65 (1964-68)

EDUCATION (1968)

Adult literacy rate	
Primary school enrollment	20% (1968)

GNP PER CAPITA IN 1970^{1/} US \$80

GROSS NATIONAL PRODUCT IN 1970/71

ANNUAL RATE OF GROWTH (% constant prices)

	<u>US \$ Mln.</u>	<u>%</u>	<u>1960-70</u>	<u>1971</u>
GNP at Market Prices	1070	100.0	2 $\frac{1}{2}$	2
Gross Domestic Investment		
Gross National Savings		
Current Account Balance	-29	-2.7		
Exports of Goods, NFS	86	8.0		
Imports of Goods, NFS	112	10.5		

GOVERNMENT FINANCE

General Government

	<u>(AFS Mln.)</u>	<u>% of GDP</u>
	<u>1970/71</u>	<u>1970/71</u>
Current Receipts	5789	12.0
Current Expenditure	4341	9.0
Current Surplus	1448	3.0
Capital Expenditures	2989	6.2
External Assistance (net)	1903	4.0

MONEY, CREDIT AND PRICES

	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>Sept. 1971</u>	<u>Sept. 1972</u>
		(Million AFS outstanding end period)				
Money and Quasi Money	6419	7893	8468	9049	8403	9375
Bank Credit to Public Sector	5239	9068	9870	10911	10420	11618
Bank Credit to Private Sector	560	979	927	1052	582	915

BALANCE OF PAYMENTS

MERCHANDISE EXPORTS (AVERAGE 1968-70)

	<u>1969</u>	<u>1970</u>	<u>1971</u>		<u>US \$ Mln.</u>	<u>%</u>
		(Millions US \$)				
Exports of Goods, NFS	82.1	85.7	97.2	Dried Fruits & Nuts	18.8	25.6
Imports of Goods, NFS	-126.0	-112.1	-120.8	Karakul Skins	11.8	16.1
Resource Gap (deficit = -)	-43.9	-26.4	-23.6	Cotton	6.5	8.9
Factor Services and Transfers (net)	-8.9	-2.2	-24.7	All other commodities	36.3	49.4
Balance on Current Account	-52.8	-28.6	-48.3	Total	73.4	100.0
Net MLT Borrowing & Grants						
Disbursements	82.4	42.2	49.8			
Amortization	-22.8	-23.6	-28.1			
Total	39.6	18.6	21.7			
Other Capital (net) incl. Errors & Omissions	8.1	7.8	6.9			
SDR Allocations	4.9	4.0	4.3			
Overall Balance	-0.2	-	-15.4			
Gross Reserves (at end year)	41.2	45.5	60.6			

EXTERNAL DEBT, DECEMBER 31, 1972

Total, Outstanding & Disbursed	<u>US\$ Mln</u>
	<u>607.4</u>

DEBT SERVICE RATIO for 1971/72 27%

RATE OF EXCHANGE

<u>Official Rate</u>	<u>Free Rate, Sept. 1972</u>
<u>through - 1971</u>	
US \$ 1.00 = 45 AFS	US\$ 1.00 = 80 AFS
1.00 = US \$ 0.023	1 AF = \$0.12

<u>Since - 1971</u>	
US \$ 1.00 = 45AFS	
1.00 = US \$ 0.023	

IBRD/IDA LENDING, February 28, 1972 (Million US \$):

	<u>IBRD</u>	<u>IDA</u>
Outstanding & Disbursed	-	5.1
Undisbursed	-	9.9
Outstanding incl. Undisbursed	-	15.0

^{1/} The Per Capita GNP estimate is at 1970 market prices, calculated by the same conversion technique as the 1972 World Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

THE STATUS OF BANK GROUP OPERATIONS IN AFGHANISTAN

A. STATEMENT OF BANK LOANS AND IDA CREDITS
(as at February 28, 1973)

Loan or Credit Number	Year	Borrower	Purpose	US\$ million	
				Amount (less cancellation) IDA	Undisbursed
158	1969	Afghanistan	Highway Maintenance	5.0	2.1
202	1970	Afghanistan	Agricultural Credit	5.0	3.1
248 ^{1/}	1971	Afghanistan	Irrigation	<u>5.0</u>	<u>4.7</u>
	Total			15.0	9.9

B. STATEMENT OF IFC INVESTMENTS
(as of February 28, 1973)

None

^{1/} Credit 68 for an Education Project in 1964 was cancelled at the Government's request in 1969. \$0.3 million which has been disbursed for the project was refunded under Credit 248.

C. PROJECTS IN EXECUTION

Cr No. 158 Highway Maintenance Project: US\$5.0 million Credit of June 26, 1969; Closing Date: December 31, 1973.

The Highway Maintenance Project of June 1969 (Credit No. 158-AF) became effective in mid-1970 after it was ratified by the Parliament which must approve all foreign borrowing. During much of the next two and one half years, the Government was forced to divert scarce local funds from this and other projects for relief operations following the drought of 1970 and 1971. Progress on the Highway Maintenance Project, therefore, was constrained by a shortage of local funds during this period, but the Government is now providing sufficient financial support. There have also been difficulties in recruiting key afghan counterpart personnel because of unattractively low civil service salaries; but recently, progress has also been made toward solving this problem, and in February a very capable president was hired for the project department.

Cr No. 202 Agricultural Development Bank Project: US\$5.0 million Credit of June 24, 1970; Closing Date: December 31, 1974.

The Agricultural Credit Project of June 1970 (Credit No. 202-AF) became effective in December 1970. In conjunction with the project, the Agricultural Development Bank of Afghanistan (AgBank) was reorganized with the assistance of a UNDP-funded German management Team. AgBank's staff has been strengthened, loan appraisal methods upgraded, and loan collection procedures improved. The number of AgBank lending operations has increased significantly under the guidance of the contracted management group; and although disbursements for the project were slowed by the recent drought, commitments are once again increasing. A second three-year contract with the consultants has just been concluded.

Cr No. 248 Khanabad Irrigation Project: US\$5.0 million Credit of June 11, 1971; Closing Date: June 30, 1976.

The Khanabad Irrigation Project of June 1971 (Credit No. 248-AF) became effective in mid-December 1972, after considerable delay in obtaining parliamentary action on this and a number of other external loans. During the past two years, the parliament has been preoccupied with domestic issues and failed to consider the foreign borrowing proposed by the Government. When the Khanabad Credit was finally considered in November 1972, however, it was approved unanimously. In early December the Government completed the remaining steps for making the credit effective, including establishment of a new department to look after the project, appointment of an experienced Afghan to head it, establishment of an imprest account for the project, and the appointment of engineering and agricultural consultants; therefore, the Government has now begun to implement the project. Moreover, in order to avoid the sort of delay experienced with the Khanabad Irrigation Project, the Government is considering legislation which, if enacted, would streamline process of parliamentary approval of external borrowing.

AFGHANISTAN - LIVESTOCK CREDIT PROJECT

Credit and Project Summary

- Borrower: Kingdom of Afghanistan.
- Beneficiary: Agricultural Development Bank (AgBank) and Herat Livestock Development Corporation (HLDC)
- Amount: US\$ 9.0 million equivalent
- Terms: Standard
- Relending Terms: Government would onlend \$5.6 million of the IDA credit to the AgBank at 4½ percent and for 15 years with 5 years grace, of which \$1.6 million to be relent at 8 percent up to a 7 years period and 2 years grace for farm development and \$4.0 m. to be relent to slaughterhouse construction, facilities and equipment. \$1.7 million of the credit would be used as part of the Government's equity in HLDC. The Government would provide about \$1.7 million from the credit as a grant to HLDC, through the AgBank, to finance the cost of the Experimental Range Improvement Center, infrastructure and technical services to be provided during the implementation period of the project.
- Project: The project consists of the following:
- (a) for groundwater development, breeding stock and alfalfa establishment, provision of credit for the development of about 1200 sheep fattening and/or breeding farms, and one 174 ha farm belonging to HLDC for breeding / fattening, slaughtersheep and demonstration purposes.
 - (b) construction of a slaughterhouse complete with buildings, utilities and equipment, with a 3000 head per day capacity on a two shift basis.
 - (c) engineering services for the design, procurement and supervision over construction of the slaughterhouse.

- (d) transport equipment for transporting fresh and chilled meat to export markets.
- (e) provision of technical services for farm development, including equipment, facilities and training for the purpose.
- (f) improvement of about 68 kms of feeder roads in the project area.
- (g) establishment of an Experimental Range Improvement Center to develop management practices relevant to rangelands in Afghanistan.
- (h) technical assistance required for the efficient management and operation of the slaughterhouse, the HLDC farm and for the provision of technical services and range management mentioned at (e) and (g) above.

Estimated Cost:

<u>Item</u>	<u>Foreign</u>	<u>Cost Local</u>	<u>Total</u>	<u>IDA Credit Amount</u>
1. <u>Farm Development</u>	1.53	1.15	2.68	1.62
2. <u>HLDC Slaughterhouse</u>				
a. Engineering & Supervision	0.02	0.10	0.12	0.12
b. Design, Civil Construction, Utilities, Machinery, and Equipment	1.40	1.78	3.18	2.86
c. Transport Equipment	0.06	1.08	1.14	1.02
d. Working Capital	<u>0.08</u>	<u>0.04</u>	<u>0.12</u>	<u>-</u>
Sub-total	1.56	3.00	4.56	4.00
3. <u>HLDC Range Improvement Center</u>	0.21	0.20	0.41	0.34
4. <u>HLDC Technical Service Unit and Road Improvement</u>	0.34	0.52	0.86	0.71
5. <u>Expert and Management Services Including Training</u>	1.40	0.16	1.55	1.40
6. <u>Contingencies</u>	<u>0.65</u>	<u>0.30</u>	<u>0.95</u>	<u>0.93</u>
Total	6.74	4.28	11.01	9.00

Financing Plan:

	Project Cost (\$US million)		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
IDA Credit	2.3	6.7	9.0
Government	1.0	-	1.0
AgBank	0.5	-	0.5
Participating Farmers	<u>0.5</u>	<u>-</u>	<u>0.5</u>
	4.3	6.7	11.0

Estimated Disbursements:

<u>1974</u>	<u>1975</u>	(US\$ million)		<u>1978</u>
		<u>1976</u>	<u>1977</u>	
0.4	1.6	2.5	2.2	2.3

Consultants:

Expert and management services to be selected on the basis of proposals which will be requested from a list of qualified firms.

Economic Rate of Return:

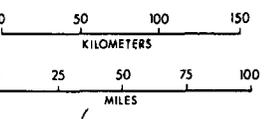
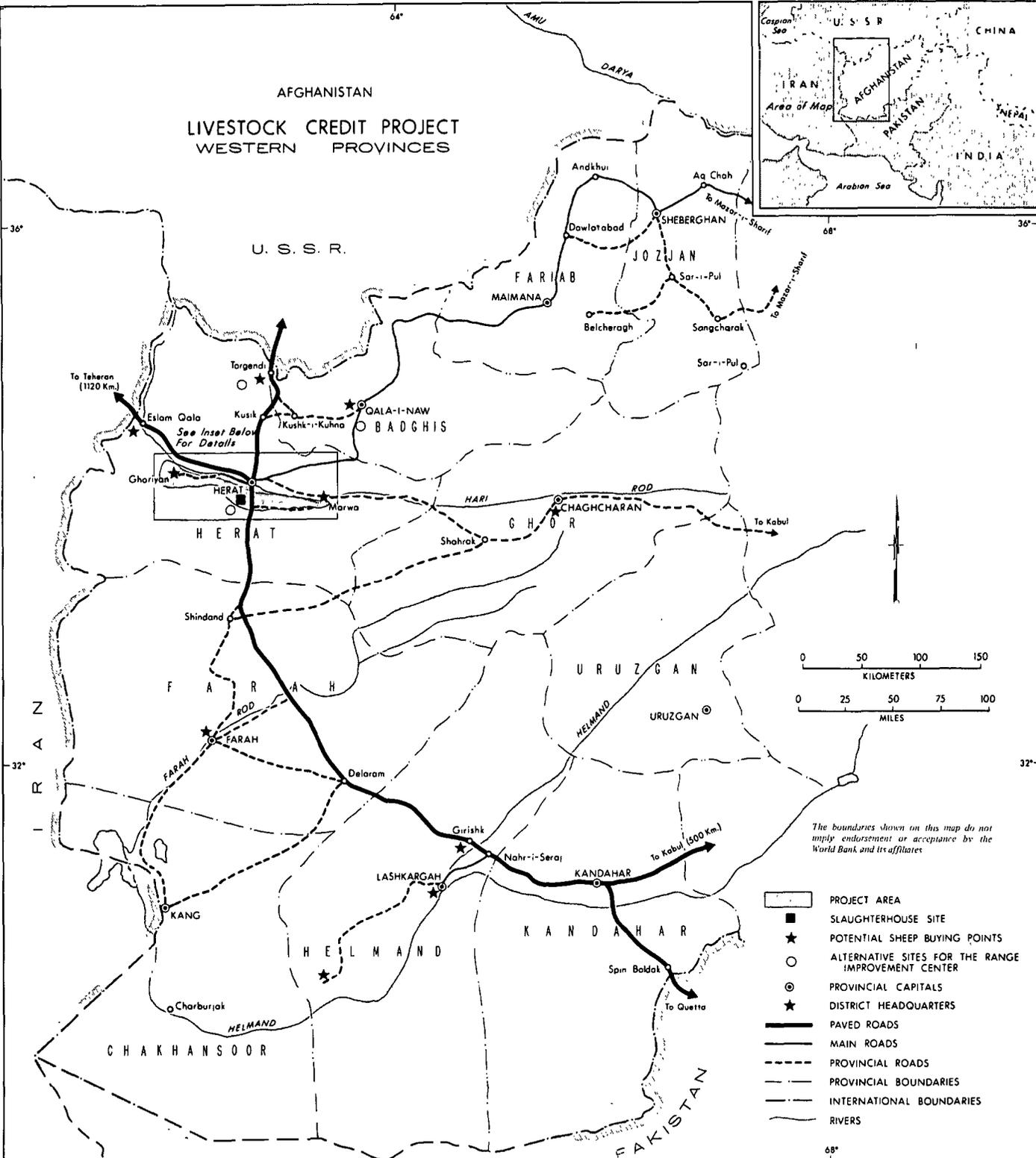
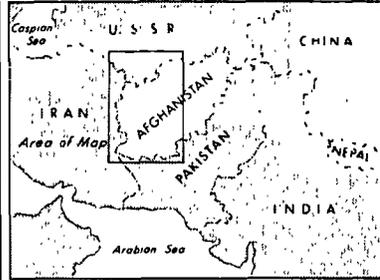
22 percent

Appraisal Report:

Report No. 56aAF dated March 7, 1973
EMENA, Agricultural Projects Division

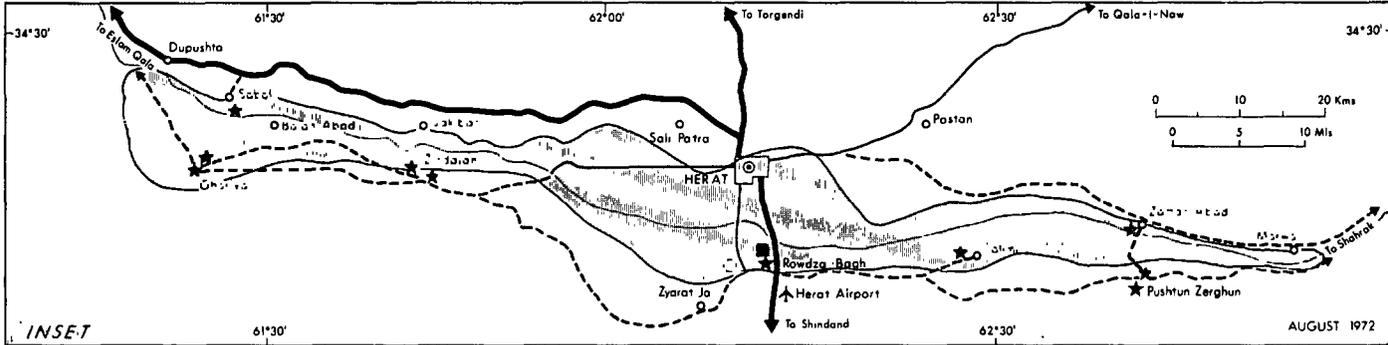
Europe, Middle East and North Africa Region
March 8, 1973

AFGHANISTAN LIVESTOCK CREDIT PROJECT WESTERN PROVINCES



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates

- PROJECT AREA
- SLAUGHTERHOUSE SITE
- POTENTIAL SHEEP BUYING POINTS
- ALTERNATIVE SITES FOR THE RANGE IMPROVEMENT CENTER
- PROVINCIAL CAPITALS
- DISTRICT HEADQUARTERS
- PAVED ROADS
- MAIN ROADS
- PROVINCIAL ROADS
- PROVINCIAL BOUNDARIES
- INTERNATIONAL BOUNDARIES
- RIVERS



INSET

AUGUST 1972