



# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 17-Oct-2018 | Report No: PIDISDSC25379

**BASIC INFORMATION****A. Basic Project Data**

Country Afghanistan	Project ID P168179	Parent Project ID (if any)	Project Name Opportunity for Maximizing Agribusiness Investments and Development (P168179)
Region SOUTH ASIA	Estimated Appraisal Date Jan 28, 2019	Estimated Board Date Apr 25, 2019	Practice Area (Lead) Agriculture
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Agriculture, Irrigation and Livestock, Ministry of Industry and Commerce	

**Proposed Development Objective(s)**

The PDO is to enhance the competitiveness of key agri-value-chains in Afghanistan for increased market access and value-addition for farmers and agri-entrepreneurs.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	181.50
<b>Total Financing</b>	181.50
<b>of which IBRD/IDA</b>	25.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	25.00
IDA Grant	25.00

**Non-World Bank Group Financing**



Trust Funds	150.00
Afghanistan Reconstruction Trust Fund	150.00

Environmental Assessment Category

A - Full Assessment

Concept Review Decision

Track II-The review did authorize the preparation to continue

## A. Introduction and Context

1. **Recurrent socio-political tensions and violent conflicts have led to high-levels of poverty and inequality in Afghanistan<sup>1</sup>.** In addition to loss of life and insecurity, the recurrent conflict in Afghanistan has led to destabilizing effects on the social cohesion of the country, weakening government institutions and rule of law. With political benchmarks set out in the Bonn Conference in 2001—the drafting of a new constitution, presidential elections, the creation of a legislature—all achieved, there was a large inflow of aid, and substantial improvements in development outcomes (expanded access to essential services and improved outcomes in education and health). But there was no peace settlement and some gains are now being eroded due to growing insecurity. The latest numbers from the Afghanistan Living Conditions Survey (ALCS)<sup>2</sup> released by the Central Statistics Organization (CSO) show that poverty in Afghanistan has increased from 38.3 percent in 2012-13 to 54.5 percent in 2016-17<sup>3</sup>. With the population continuing to grow more than 3 percent a year, per capita GDP fell during the same period from US\$ 669 to US\$ 551, making Afghanistan one of the poorest countries in the world. The poverty rate is expected to remain high in the medium-term, driven by weak labor demand—in the face of an increasing labor force—and security-related constraints on service delivery.

2. **Recent developments bear evidence that Afghanistan’s economy remains highly vulnerable.** Following the economic shock of the withdrawal of international troops, the associated decline in aid and deterioration in security; and the period of political instability after the 2014 elections, the Afghan economy has slowly regained momentum as reforms have been implemented and confidence restored. From a low of 1.5 percent in 2015, real GDP growth accelerated to 2.3 percent in 2016, and reached 2.7 percent in 2017. Growth is projected at 2.4 percent in 2018, with substantial downside risks arising from the prospects of political instability around upcoming parliamentary and presidential elections, scheduled for October 2018 and April 2019 respectively. In the medium term, growth is expected to remain muted, increasing modestly to 3.6 percent by 2020.

3. **Long-term, sustained economic growth requires a structural economic transformation and new sources of growth.** Agriculture and minerals are the two sectors with the greatest potential to drive economic growth in the foreseeable future, and to generate foreign exchange earnings and domestic revenues needed to help offset the projected decline in foreign aid flows. The crucial role of agriculture in Afghanistan’s economic development is widely recognized; and it is becoming increasingly important to focus immediate attention on agribusiness—the role of commercial enterprises, economic institutions, and input and output marketing activity. Because agribusiness uniquely integrates raw and natural sources of supply with the dynamics of food demand, its development has a positive impact

<sup>1</sup> Afghanistan is a landlocked country in Central/South Asia with a landmass of 653,000 km<sup>2</sup> and a population of 34.6 million inhabitants (2016).

<sup>2</sup> Source: ALCS 2016-17; available at [https://cso-of-afghanistan.shinyapps.io/ALCS\\_Dashboard](https://cso-of-afghanistan.shinyapps.io/ALCS_Dashboard)

<sup>3</sup> This is measured against a national poverty line of 2,064 AFN per person per month – approx. \$1 a day in current exchange rate terms.



on food security and employment in both rural and urban areas, offers market access to smallholder agriculture, creates business linkages to small and medium enterprises, and generates export revenues. With its effects on employment gains and food security, agribusiness development is key in expanding the role played by agriculture in Afghanistan's economic growth and overall poverty reduction.

4. **Considering current global and national trends, the Afghan agribusiness sector has enormous potential for growth, but also faces significant challenges that must be overcome to realize that potential.** This can only be achieved through increased investments and implementation of facilitating policies and reforms in areas that require good intra-governmental coordination as well as public-private partnerships.

5. **The proposed project supports these objectives which are an integral part of the Agribusiness Charter recently adopted by the Government of Afghanistan (GoA)<sup>4</sup>. The Charter is the blueprint for agri-enterprise development in the country and provides a framework for investment priorities in the sector.** It reflects emerging themes on private sector development within the strategic plans of ministries such as Ministry of Commerce and Industry (MoCI) and the Ministry of Agriculture, Irrigation and Livestock (MAIL). It contains an action plan arising from stakeholders' consultation (including donors) that address several strategic priorities for agribusiness development in the areas of: (i) enabling policies and regulations; (ii) creation and support of innovative institutions and agri-spatial solutions; (iii) facilitating access to finance; (iv) and institutional strengthening for effective service delivery.

**Box 1: Afghanistan Agribusiness Charter – Vision and Objectives**

The Afghanistan Agribusiness Charter is designed to facilitate and improve policy, partnerships and private sector activity in the agribusiness sub-sector, improve effectiveness and transparency in state support for the development of agribusiness, and offer a platform for improved coordination. This is consistent with the emerging consensus in Afghanistan that if agriculture is to be the main sector to stimulate economic growth then public investments should go beyond improvements in on-farm productivity to cover agribusiness and agri-industrial development, but also that private capital, including extending service delivery to producer, needs to be maximized. Against this background, the vision of the Agribusiness Charter is of a **competitive agribusiness sub-sector generating sustained economic growth and diversifying employment opportunities, benefiting the Afghan population.** This sub-sector will be made up of highly productive and profitable value chains that:

- effectively link small and medium size agricultural producers to markets, inducing productivity gains and increasing prosperity through income diversification and value-addition processes;
- supply higher-valued and differentiated food, fiber and feed to consumers at local, regional and global markets;
- increase the incomes of producers; and
- act as an effective basis for industrialization, providing employment and entrepreneurial opportunities in both rural and urban areas.

In the medium- to long-term the Afghanistan Agribusiness Charter aims to catalyze and support the emergence of an efficient, market-orientated agribusiness sub-sector characterized by: (i) profitable and competitive agribusinesses which provide inputs and services to farmers, encouraging domestic, regional and international financial institutions; and (ii) public sector policies and institutions which facilitate increased private sector investment in agribusiness and efficiently deliver services and inputs to farmers and agri-firms on their own or in partnership with the private sector.

**B. Sectoral and Institutional Context**

6. **There is a compelling case for investing in agriculture/agribusiness in Afghanistan.** The sector accounts for about 25 percent of national GDP and is the second largest sector after services. This percentage becomes even higher if processing of agricultural products is included. More than 80 percent of the population and nearly 90 percent of the poor live in rural areas, and agriculture plays a key role in their livelihoods. About half of all households derive at least part of their income from agriculture, which employs about 40 percent of the national workforce.

7. **Notwithstanding recent progress, the agriculture sector continues to suffer from the recurring and long-lasting political instability leading to structural constraints and low productivity.** While significant results have been achieved in recent years regarding the development of selected value chains (i.e., horticulture crops), increases in productivity, and

<sup>4</sup> The Afghanistan Agribusiness Charter was developed with support from the World Bank Group (ASA - P165015).



expansion of irrigation infrastructure, there is a long way to go to utilize the full potential of the agricultural sector - including: developing the necessary national capacity to carry out the structural reforms and other changes required by the sector's development strategy; revamping rural institutions; upgrading infrastructure; improving farmers and agri-entrepreneurs' access to modern production and post-harvest technology; and facilitating access to finance. This necessarily calls for private sector value chain investments, as well as public sector support to enable same.

8. **Agribusiness value chains are under developed with a low ratio of food processing to primary agriculture.** The agro-processing sector in Afghanistan is poorly developed and currently uncompetitive with imported processed products. To the challenge of lower levels of technological expertise and smaller economies of scale relative to global competitors, must be added an unpredictable policy environment, inadequate infrastructure (logistics, energy, storage, handling and packaging, etc.), and lack of access to finance to make new investments. Furthermore, poor security, high land lease rates, and costs of operation associated with export are equally high<sup>5</sup>, and clearly binding: Several businesses established in industrial parks (Herat, Mazar-i-Sharif, Bagram, etc.) have ceased operations. While it is quite easy to start a business, the country ranks poorly in enforcing contracts, trading across borders, protecting minority investors, registering property, dealing with construction permits and providing electricity. The World Bank's annual Doing Business rankings for 2017 show that Afghanistan continues to be one of the most challenging places in the world to do business; the country is ranked 183 among 190 economies in terms of Doing Business<sup>6</sup>. At the same time, regulations and institutions that could facilitate agricultural production and trade, such as sanitary and phytosanitary (SPS) enforcement, food safety standards and export certification, are lacking.

9. **While Afghanistan is currently poorly positioned to compete in international markets and weakly integrated into global agri-value chains, it offers several opportunities for agribusiness development.** First, ***Afghanistan produces a wide range of dried fruits and nuts*** (with many varieties of raisins and almonds alone), with unique tastes that have attracted global buyers. However, Afghan exports of dried fruits and nuts are currently concentrated only in few regional markets (India and Pakistan)<sup>7</sup>. This offers tremendous opportunities to expand export of these products in both the East and the West, but this will require concerted efforts to address quality control and food safety issues, consistency of supply, and eventually developing a premium brand. Second, ***Afghanistan has a long tradition in horticulture production of exclusive indigenous varieties of fruits and vegetables***, including grapes, apples, apricots, and pomegranates. The sector represents a significant share of Afghanistan's export basket (around 21 percent of total Afghan exports in 2016, valued at nearly US\$ 168 million). In addition to ideal climatic and soil conditions, Afghan farmers have a comparative advantage over regional neighbors in production of fruits and vegetables; climates in South Asia are overwhelmingly hot and humid, while Central Asian states to the north experience short growing seasons due to cold temperatures. As a result, the fresh fruits and vegetables sector has opportunities to respond to unmet consumer demand in both South and Central Asia. Domestic markets offer also a significant consumer base for fruits and vegetables and there is still ample space for growth<sup>8</sup>. Moreover, the sector offers value added opportunities through processing; notably, fresh fruits which serve as a raw material to produce Afghanistan's wide array of dried fruit products. Third, ***Afghanistan is strategically positioned to derive a competitive advantage through trade***. Although transportation infrastructure in the country is still limited, much has been rehabilitated in the past twelve years. The GoA is also seeking to position the country as a strategic land bridge and transit-transfer hub that connects Central and South Asia and other regions. It has already co-invested in regional infrastructure development projects such as the Lapis Lazuli Corridor, the Central Asia–South Asia power project CASA-

<sup>5</sup> It takes 228 hours and US\$344 to comply with documentary requirements for export.

<sup>6</sup> <https://data.worldbank.org/indicator/IC.BUS.EASE.XQ>

<sup>7</sup> Some of the interviewed firms reported that their consignments of raisins, pistachios, and pomegranate juice concentrate had been rejected at destination markets (Saudi Arabia, United States of America, Italy, and the United Arab Emirates) after testing positive for harmful substances such as embedded sand, pesticide residues, crystallization, mold, stem pieces, and high mycotoxin and aflatoxin levels.

<sup>8</sup> Under assumptions of continuity of the current political and climatic conditions, with limited assistance and development activities, horticulture's contribution to GDP should more than double by 2024. *Afghanistan Horticulture Sector Review. World Bank Global Agriculture Practice Discussion Paper 06, 2014.*



1000, the Turkmenistan–Afghanistan–Pakistan–India Pipeline and Chabahar port. Moreover, the government is opening air cargo facilities to strengthen Afghan traders' links to the Indian market. With these investments, in the short-to-medium term, Afghanistan has the potential to consolidate sector exports to markets in close geographic proximity, and could even enable exports of fresh fruits and vegetables to other regional markets that are out of reach at present. Fourth, ***Afghanistan has recently completed the process of joining the World Trade Organization and ratifying the Trade Facilitation Agreement.*** These are important milestones which pave the way for greater integration of Afghanistan into the international trading system and leverage the country's strategic location. More needs to be done, however, to exploit Afghanistan agribusiness opportunities, particularly in terms of facilitating policies and regulations and their enforcement, building capacity to meet quality and phytosanitary standards, overcoming the country's logistics challenges resulting from Afghanistan's landlocked position, and improving the country national cold chain infrastructure.

10. **Gender and climate change – consequences and challenges.** Afghanistan is among the most vulnerable countries to the effects of climate change, particularly in relation to vulnerability to droughts, floods, landslides and avalanches. Climate change is already having a significant impact on the country's agriculture: droughts are more frequent and snow is melting three weeks earlier than in the past, leading to floods in the spring and increased risk of water shortages in the summer. Smallholders who produce much of the crops are the most vulnerable group – and the least equipped to cope with the changes. Women are also among the most severely affected as climate change often affects several daily tasks that are culturally associated with women's responsibility such as household water supply or collecting resources for heating and cooking, etc.

11. **Women are generally concentrated at the lower levels of the value chains<sup>9</sup>.** Men, on the other hand, link households with the market to obtain input supply and sell the products, in addition to their substantial engagement in production. Men also serve as the actors in the upper levels of the value chains, including middlemen or village-level traders and processors, wholesalers, retailers, or exporters. This division of labor is largely a reflection of social and cultural norms, which do not allow women to interact with men, travel by themselves, or own land. These factors severely curtail women's access to resources and services, including credit, training, extension, inputs, and trading and marketing networks. Women do not have collateral to apply for credit or opportunities to participate in extension training because selection for these opportunities is often based on land ownership. Moreover, there are few or no women service providers in extension, credit, input supply, or marketing. Despite the key roles women play in harvesting and post-harvest processing, there is little or no training on quality control, including hygiene, sanitation, and higher-value varieties. Recognizing women's predominance in agricultural production, harvesting, and processing, the National Agriculture Development Framework of the Ministry of Agriculture, Irrigation, and Livestock (MAIL) stipulates that gender mainstreaming must form an important cross-cutting element of its work in economic regeneration, agricultural production, and natural resource management.

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<sup>9</sup> An estimated 54 percent of Afghanistan's agriculture workforce is female. Women are especially prominent in horticulture and livestock husbandry. They are mostly involved in tasks related to irrigation, weeding, harvesting, and minimal processing, such as drying and packing raisins and almonds, at the household level.



### C. Relationship to CPF

12. **The project is fully aligned with the major thrusts of the Bank's Country Partnership Framework (FY17-20).** The project contributes to the three strategic areas of focus of the CPF: (i) *"build strong and accountable institutions to support the government's state-building objectives and enable the state to fulfil its core mandate to deliver basic services to its citizens, and create an enabling environment for the private sector"* - by supporting the development of strong public institutions to deliver agribusiness oriented services and by promoting policies and regulations that can foster a competitive and sustainable upgrade of the agribusiness sector in Afghanistan. (ii) *"support inclusive growth, with a focus on lagging areas and urban informal settlements"* - by supporting investments in agri-food parks in different provinces. These parks are expected to diversify job opportunities and facilitate inclusion of small-scale actors (farmers and agri-enterprises) by offering an enabling environment that facilitate access to serviced industrial land and modern technology. (iii) *"deepen social inclusion through improved human development outcomes and reduced vulnerability amongst the poorest sections of society"* - by expanding the vulnerable groups (women and youth) access to economic resources through agro-processing and related services.

### D. Proposed Development Objective(s)

13. **The PDO is to enhance the competitiveness of key agri-value-chains in Afghanistan for increased market access and value-addition for farmers and agri-entrepreneurs.** This objective is fully aligned and contributes to the Government of Afghanistan's Agribusiness Charter Vision which aims at achieving a sustainable and competitive agribusiness sector, generating economic growth and diversifying employment opportunities.

14. Key Performance Indicators (KPIs) include:

- a) *Increased productivity of project-targeted commodities/products (dried fruits and nuts, dairy products and eggs/poultry): this would be measured based on increased yields at harvest (kg per ha).*
- b) *Share of agricultural produce that is processed into high-value products (percentage); and*
- c) *Incremental sales on domestic and export markets of targeted commodities, including dried fruits and nuts (exports), dairy/milk, poultry/ eggs (domestic) - (percentage).*
- d) *In addition, the following two core corporate indicators regarding direct beneficiaries would be measured: (i) Number of project beneficiaries; disaggregated by gender; and (ii) Beneficiary satisfaction rate with the quality of project-supported services, as a partial measure of citizens' engagement in the Project.*

### E. Concept Description

15. **The proposed Project will be structured as an Investment Project Financing (IPF), funded by an IDA grant in the amount of US\$25 million and US\$150 million from the Afghanistan Reconstruction Trust Fund (ARTF). In addition, a parallel financing in the amount of US\$6.5 million from the UK Department for International Development (DFID), to be executed by IFC would complement the project activities<sup>10</sup>.** The project will be implemented over a five-year period and will focus primarily on the agro-processing segments of the horticulture and livestock value chains, including the critical linkages to upstream raw material. These were identified as priority value chains for development under the national development policies (NPP5- 2016-2021 and NES 2018-2022); specifically: horticulture products (dried fruits and nuts, fresh fruits and vegetables - mostly for exports), and livestock products (poultry, eggs, and dairy for domestic markets, in competition with current imports). These priorities were also established as part of the preparation of the Agribusiness Charter through a participatory decision-making process which applied an agreed set of criteria to assess

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<sup>10</sup> To be confirmed in Q1 2019.



the value chains, including consultations with key stakeholders (line ministries, producers, private sector and development partners). The criteria included: (i) evidence-based market demand for selected commodities; (ii) the value chains fit within the country's overall strategies for poverty reduction and job creation, including their impact on the rural economy – diversification of incomes; local processing of raw materials; able to employ low-tech skills (including women and youth); etc.; and (iii) contribution to agriculture GDP and growth potential reflecting a pragmatic approach to a sustained development of selected value chains – their potential in terms of value-addition and increased exports; prospects for attracting public and/or private investments; availability and accessibility of raw materials and potential for local SMEs (including informal suppliers) to be integrated in regional/international markets; situation with regard to existing infrastructure; and complementarities with other projects in the country.

16. Field operations will be implemented sequentially in the five selected areas of the country which have a comparative advantage to produce for these value chains (Balkh, Kandahar, Kabul, Herat, and Nangarhar). The project will adopt an integrated perspective to developing the selected chains from production to marketing on the domestic and regional markets, or for export to international markets. It will support access to finance for services and activities of entrepreneurs who are ready to engage in intensification of their production and/or develop value-added activities to primary production through diversification of processing activities. It will also support the logistics between agricultural production and the market (including processing, storage, and transport). This will require the close involvement with Partner Financial Institutions (PFIs), as well as partner companies with the framework approach of productive partnerships.

17. **The proposed project will build on current World Bank agricultural productivity enhancement projects.** These are: (i) the National Horticulture and Livestock Project for Afghanistan (P143841) which is promoting adoption of improved production practices and technologies; (ii) the Afghanistan Agricultural Inputs Project (P120397) which seeks to strengthen the institutional capacity and reliability of agricultural inputs and sustainable production of certified wheat seed; and (iii) the On-Farm Water Management Project (P120398) which seeks to improve agricultural productivity in the Project areas by enhancing the efficiency of water used. It will also closely coordinate its activities with the current World Bank Project (Afghanistan Access to Finance - P128048), which is supporting the country to build institutional capacity to improve access to credit for micro, small and medium enterprises.

18. **The project will address the following constraints to agri-business development identified as part of the consultation process for the preparation of the Afghanistan Agribusiness Charter:**

- a) *lack of capacity of MAIL, MoCI, and other relevant institutions* to deliver efficient agri-value-chain oriented services and to create an enabling environment for sustainable agribusiness development;
- b) *access to markets remains challenging for Afghan agri-food enterprises:* Afghanistan has made some improvements in facilitating imports and exports; however, with the WTO Trade Facilitation Agreement coming into force, major reforms are still needed (standards and certification regime particularly which is rudimentary and lacks the equipment and infrastructure required to test for key quality and food safety standards);
- c) *access to industrial serviced land for agri-food enterprises and SMEs is limited;* available serviced land remains a severe constraint to upgrading the agricultural sector; agribusiness firms face challenges in trying to acquire productive plots due to patronage, poor management and rent-seeking behavior;
- d) *access to finance:* producers and processors lack access to finance because of ill-adapted financial products, weak capacity of financial institutions, lack of credit guarantees and overall poor financial outreach and education<sup>11</sup>; and

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<sup>11</sup> The World Bank Project (Afghanistan Access to Finance - P128048) is being restructured and will be expected to address the following: (i) Through MISFA, funding is secured for MFIs to design and pilot (over \$12-15 million) products specifically for agriculture finance. Funding would be provided



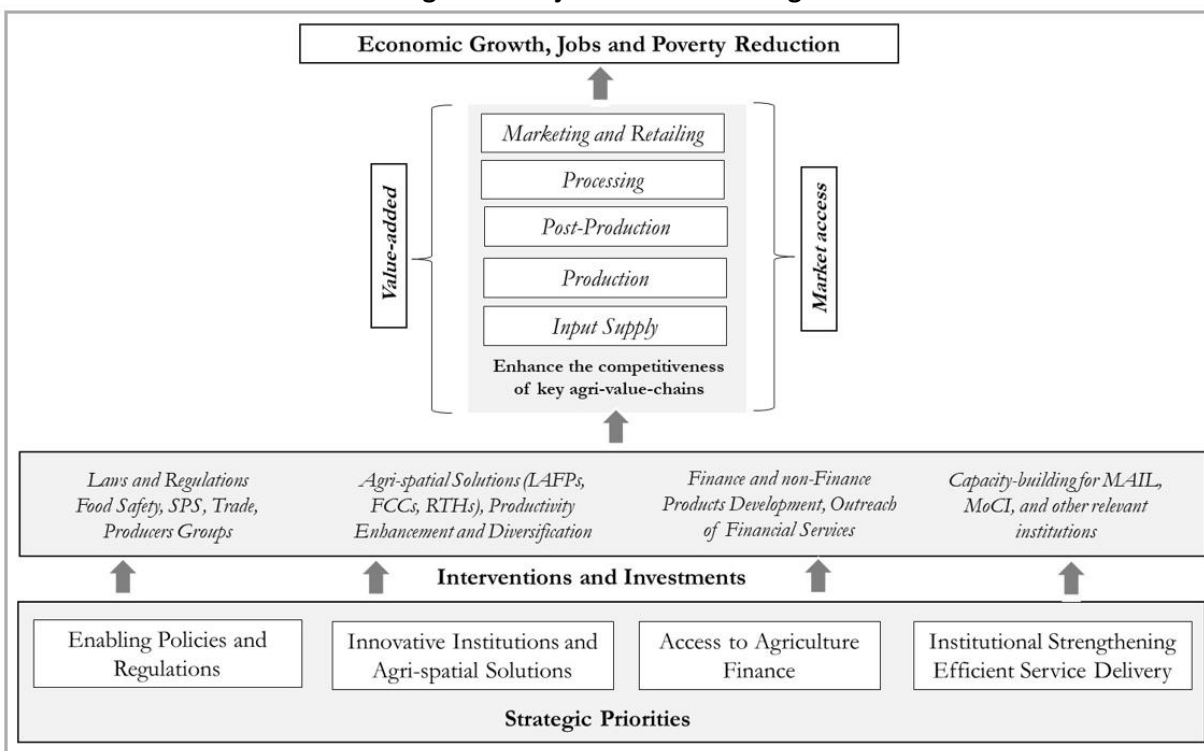


- e) *producer organizations are inefficient*: cost-savings, access to technology and markets can in theory be achieved through stronger producer organizations and cooperatives as part of productive partnerships with processors and traders; in reality, however, many cooperatives have been created mainly for the purpose of channeling aid to farmers; current cooperative and farmer organization laws therefore require revision.

19. In addressing these constraints and in partnership with IFC, the Project will include a spectrum of actions for Maximizing Finance for Development (MFD) by: (i) increasing the space for private sector activity<sup>12</sup>; (ii) improving the policy and regulatory environment; (iii) considering options for using public financing to improve private incentives and to reduce transaction costs and risks, including blended finance solutions; and (iv) supporting essential public goods and services such as human capital, agricultural research, and complementary public infrastructure. The Project will also focus on WB corporate cross-cutting priorities; especially (a) gender issues and empowerment of vulnerable groups (women and youth) and respect of social safeguards<sup>13</sup>; (b) mitigation and adaptation to climate change and adherence to environmental safeguards, as climate change is becoming a severe constraint to production; and (c) public health and nutrition bearing in mind that processed food currently does not meet the required safety standards.

20. Figure 1 below illustrates the project approach and how the planned interventions will support enhancing the competitiveness of key agri-value-chains in Afghanistan for increased market access and value-addition and contribute to economic growth, jobs creation and poverty reduction.

Figure 1: Project intervention logic



to MFIs to develop their infrastructure to provide digital financial services – and improved their outreach; and through ACGF, technical assistance would be provided to partner financial institutions (banks and MFIs) for the design of guarantee products specifically for agriculture finance.

<sup>12</sup> For instance, by improving market infrastructure, security of property rights, efficient functioning of finance and labor markets, etc.

<sup>13</sup> The tool-kit developed by IFC “Investing in Women along Agribusiness Value Chains will be used to derive Gender-Smart-Solutions for the proposed project.



21. Based on the above approach, the Project is designed with two interrelated technical components: (i) improving the enabling environment and quality of support services for agribusiness development; and (ii) support to private investments through agri-spatial solutions and facilitation of access to finance. The third project component would focus on crisis prevention and management, project management and monitoring and evaluation (M&E), and establishing the governance structure for the coordination and implementation of the Afghanistan Agribusiness Charter

### **Component 1: Improving the enabling environment and quality of support services for agribusiness development**

22. The objective of Component 1 is to ensure an enabling policy and regulatory environment, and delivery of support services that can foster a competitive and sustainable development of the agribusiness sector in Afghanistan, essentially through public provision of enabling environment, goods and services.

23. **Sub-Component 1.1: Support to policies and regulations.** SC1.1 will focus on the following twin policies: (i) *business policies*: technical assistance to streamline or amend laws, regulations, administrative acts, other controls and taxation arrangements that create an unnecessary burden or unjustified cost to private activities; ensure an enabling regulatory and operating environment for agriculture finance that will influence the level of funding allocated to agriculture/ agribusiness development; and formulate and implement a clear and transparent legal and regulatory framework codifying the agri-industrial parks strategy and establish the rules of the game for all stakeholders involved in the process; and (ii) *trade policies*: support to establish a national sanitary and phytosanitary system fit for the purpose of fostering investment and initiatives in food systems; ensure that appropriate food safety/ quality regulations and facilities are available to enable the country to compete on export markets; see that policies are in place to enable Afghanistan to take maximum advantage of WTO membership benefits, including the extent to which domestic producers in infant industries can be offered some level of tariff protection; and ensure that steps are taken to reduce documentary requirements for import and export and to avoid overlapping and duplicating responsibilities of various agencies at border points. The financing of these activities will be coordinated with the Executive Committee on Private Sector Development (PriSEC).

24. **Sub-Component 1.2: Delivery of support services.** The project will improve delivery of government assistance for sustainable development of the agri-business/ agri-food sector. This will be achieved, building on the on-going GoA Capacity Building for Results Program (CBRP), by providing catalytic support towards strengthening the capacity of MAIL, MoCI, and other relevant institutions to deliver efficient agri-value-chain oriented services and to promote an enabling environment for sustainable agri-food sector development. A focus will be on those entities and structures involved in formulating and implementing policy; strategies and solutions for enhanced growth, employment and entrepreneurship in the agribusiness sector; making interactive and demand driven knowledge, innovation and extension system; promotion of investments in the sector; enhanced governance and partnerships across the value chains, and management of agribusiness development programs/projects. To the above effect, the project will fund special studies, dissemination activities, targeted training and specialized technical assistance.

25. **Strengthening MAIL's capacity.** This intervention is expected to be financed under the EU project contribution which will be implemented through ARTF. The project will strengthen MAIL's capacity to create an enabling environment for sustainable agribusiness development and to deliver adequate agribusiness-oriented services, with the focus on farming sector and its linkages with the value chain. The project will focus on two-pronged activities: (i) policy and institutional reform: supporting the implementation of MAIL's on-going institutional reform; supporting an internal technical advisory unit<sup>14</sup>; functional and performance assessment of key departments (e.g. Policy and Planning, Extension,, Private Sector, Plant Protection and Quarantine , Monitoring and evaluation); and (ii) improved delivery of agribusiness oriented services: strengthening the capacity of MAIL's key departments; developing MAIL's capacity to deliver certification services to the private sector; and developing demand-driven extension system, and strengthening and

<sup>14</sup> The advisory unit will be established with the initial support and experience of the EU-MAIL Transition Project (TP) that is already in place.



expanding its extension services (based on Farmer Field School-FFS and Farming Learning and Resource Centers-FLRC concepts), with the involvement of private service providers.

26. **Strengthening MoCI's capacity.** MoCI is currently inadequately structured and lacks the required human resources to supervise and support the new trade and industrial development vision of the country. Due to the lack of technical capacity, and inefficient business support services, the ministry has not been able either to formulate or implement a coherent policy that could promote and protect the nascent and vulnerable national industries, especially in the agri-food processing sub-sector (dairy, animal feed, poultry, etc.). The project will support building selectively the capacity of MoCI Directorates which are mandated to promote agri-value chains development. These include the SME Directorate, Investment Promotion Directorate, Industrial Parks Directorate, Market Regulation and Strategic Commodities Directorate, and Fair Competition and Consumer Protection Directorate. To strengthen its outreach and decentralization process, the project will also support MoCI to establish accredited Business Development Services (BDSs) in selected provinces. These BDSs may be either public services or private services outsourced to third entities.

### **Component 2: Support for development of integrated agri-spatial solutions**

27. The objective of Component 2 is to enhance the productivity of Afghan smallholders' farmers and competitiveness of agri-food enterprises in domestic and international markets. This will be achieved through a mix of integrated interventions including: (i) developing and promoting investment opportunities in the agribusiness sector; (ii) investing in infrastructure and services that serve to increase market access, productivity, and value addition along the value chain; and (iii) facilitating value-chain financing to catalyze private investments in the agribusiness sector and allied services.

28. **Developing and promoting investment opportunities in the agribusiness sector.** This intervention is expected to be executed by IFC with parallel financing from DFID (\$6.5 million). Activities will include helping potential investors to prepare bankable business plans and work with current investors to identify opportunities to improve productivity and processes and upgrade technology. IFC will also support current and new agribusiness firms through advisory services including the development of value chains through improvement in extension services, contract farming and capacity building. These activities will focus on the IAFPs and in their broader catchments areas (see below).

29. **Integrated Agri-Food Parks (IAFPs).** In partnership with IFC, Component 2 would promote the creation of several *Integrated Agri-Food Parks* (IAFPs) at provincial level which would be linked to producers in selected catchment areas via a network of strategically placed *Farmers Collection Centers* (FCCs) and *Rural Transformation Hubs* (RTHs). IAFP model was selected as part of the Agribusiness Charter as it is perceived as an effective development approach to fill identified gaps in the current context of Afghanistan (lack of security, industrial infrastructure and enabling environment for agri-business development). It is also adopted based on other considerations including efficiency in terms of exploiting economies of scale, market demand, and public planning and resource allocation processes. It is expected that such platforms will act as "technology hubs and centers of excellence" supporting local economic development and inclusiveness of host communities, capturing industrialization opportunities in the agri-food system, creating labor-intensive manufacturing jobs and moving towards higher-value activities. IAFP model is also expected to provide an outlet for Afghan farmers in their own regions, with which they can be built long-term relationships, and to demonstrate to future investors that agri-processing can succeed in Afghanistan. The minimum zone-selection criteria for establishing an Integrated Agri-Food Park are described in Box 2 below.



**Box 2: Minimum zone-selection criteria for establishing an Integrated Agri-Food Park**

As part of the Afghanistan Agribusiness Charter, it is foreseen to support the creation of a number of IAFPs through the provision of land together with key infrastructure. These are public incentives intended as a “capital subsidy” that releases and crowds in resources of target firms, enabling them to invest more in market penetration and product development, rather than in land acquisition and buildings. In Afghanistan, this support is necessary for several key reasons, including, the lack of an enabling business environment and infrastructure to support food processing, and concerns of national and international investors with security and the need to minimize their risks.

In selecting the IAFPs for support under the current Project, best-practice principles for facilitating industrial zones success will be adhered to, including the following minimum zone-selection criteria:

- **Unencumbered Land Title:** The site shall have clear and secure legal title, shall not be squatted, and shall not require significant compensated population resettlement;
- **Suitable site topography:** Selection of a site with favorable physical characteristics and suitable soil foundation (e.g., flat terrain, no visible water issues and with little/no vegetation), capable of being secured, with minimal environmental constraints (e.g., flooding, grading, leeching). The site should also offer physical expansion potential, with no encroachment vis-à-vis urban centers or local communities.
- **Access to basic infrastructure:** Proximity of the proposed zone to necessary utilities for manufacturing and other processes (e.g., power supply, water, sewage, etc.) and roads to minimize public offsite infrastructure-development expenditures.
- **Connectivity:** Construction of the park near existing population centers, national/international transportation networks (main trade roads, airports, etc.), to provide easy access to labor, suppliers, and distribution markets.
- **Domestic/export market access:** Selection of a zone site with proximate access to large consumer (export/domestic) markets.
- **Land-use plans:** Existence/ development of land-use plans that adhere to: (i) best-practice urban planning/development norms regarding mixed-use buffer zones that separate the industrial park, commercial, tourism, and residential areas; (ii) public/private construction of infrastructure facilities (e.g., sewerage/wastewater treatment plants), including social infrastructure (especially education and healthcare) to attract skilled workers; (iii) public/private sector implementation of environmental protection technologies (e.g., storage areas); and (iv) Public/private sector provision of waste-disposal/refuse-collection capacities.
- **Environmental impacts:** Site designation with minimal environmental impact on water quality, terrestrial/aquatic biological organisms, aesthetics, air quality, and noise levels.
- **Management of the IAFP:** The existence/creation of an entity to manage the IAFP to increase administrative, operational, and management efficiencies and to lower costs for investors.
- **Security:** Avoid conflict-affected areas and unopened or underdeveloped areas that will have difficulties to attract private investors and, regardless of economic potential.

In addition, to ensure the greatest possible success of the IAFP concept, only those projects that meet the following conditions shall be selected for investment: (i) **Alignment of objectives and priorities:** Assessment of the political and economic interests at various levels (local authorities, local communities, and private sector) to “ascertain” they are aligned in a way that create needed enabling conditions for the success of the project. The hosting community should be involved in this assessment and approve the project; (ii) **Show positive feasibility study results.** Concerned authorities shall carry-out in-depth pre-feasibility and feasibility studies to provide evidence-based inputs for facilitating the decision-making process (yes-no decision based on the production basins, location, targeted value chains), including a sound business plan in tune with the park strategic focus and a demand forecast analysis; and (iii) **Balancing the needs for social and development support and commercially viable business solutions – inclusive value chains promotion.** Ideally, be conducive to the development of small and medium sized enterprises.

30. **Farmer Collection Centers (FCCs) and Rural Transformation Hubs (RTHs).** Component 2 will support establishing a network of strategically placed sub-provincial satellite centers feeding into the IAFPs by facilitating access to finance and technical assistance to induce more private sector investments<sup>15</sup>. The entry point to support the creation of these facilities will be the off-takers and these will be fully private sector driven (see Box 3). The FCCs will serve as collection points for both farmers’ groups and individual farmers and may offer pre-cooling storage services and extension and advisory services. The RTHs would offer a platform for primary processing (storage, grading, sorting and packaging) and for supplying agricultural inputs (planting material, fertilizers, pesticides, agricultural machinery, etc.). In addition, the project will support investments for producer organizations in the catchment area to ensure optimal agricultural productivity to

<sup>15</sup> Access to finance modalities (including options for MGs) will be developed during project preparation and coordinated with activities planned under the Afghanistan Access to Finance Project (P128048).



meet the supply needs of the IAFPs, generate employment opportunities along the value-chains and contribute to local economic growth<sup>16</sup>. These investments will adopt the Productive Alliance scheme to strengthen value chain relationships, catalyze contract farming, and deliver technological and capacity upgrades.

31. Through this network, farmers in outlying districts will benefit from linkages to processors and gain access to market information, training and advisory services. Moreover, the FCCs and RTHs will serve as outreach buying points for the IAFPs and distribution points for farm inputs. This constitutes a win-win for farmers and firms. By extending the outreach and impact of the IAFPs to more remote growing areas within their production basins, they will strengthen supply chain linkages and serve as an important means of spreading supply risk, given that the processing platforms will be located close to towns where processors face intense competition for raw materials

from traders. By linking farmers in outlying districts to processors, the satellite centers (FCCs and RTHs) will improve farmers' knowledge of market outlets, enable them to obtain better prices, and facilitate their access to training and inputs, eventually making the supply chain more efficient and sustainable.

### Component 3: Crisis prevention and management, project management and M&E, and establishing the governance structure for the coordination and implementation of the Agribusiness Charter

32. Component 3 will strengthen crisis preparedness and management mechanisms for the project-targeted value chains; it will also support project implementation and coordination capacities and establish the governance structure for the coordination and implementation of the Afghanistan Agribusiness Charter. It will support the following activities:

- a) *Crisis Prevention and Management:* The objective of this activity will be to strengthen the readiness of relevant institutions to face emergencies and crises related to the agribusiness productive and marketing base. One important focus would be to cover losses in case of drought affecting production or major market disruption due to external events leading to food emergency, livestock losses, etc. The project would provide the institutional support to strengthen MAIL's and MoCI's capacity to respond to such emergencies and the related funds to intervene in the event of a severe crises. These funds will not be provided upfront; they will come from reallocation of financial resources within the project proper and the entire Bank portfolio;
- b) *Project Management and M&E:* The project would fund the establishment of a Project Coordination Unit (PCU), through provision of appropriate staffing and operating resources to take charge of project management including resources for fiduciary management, safeguard compliance and M&E; the PCU will be integrated into the MAIL and MoCI administrative structure and work closely with Ministry of Finance (MoF) administrative and financial services; these services will be strengthened to that effect; and

#### **Box 3: Investments in the Farmer Collection Centers and Rural Technology Hubs**

The FCCs and RTHs will be supported based on private sector demand and will comprise the following types of investments:

- **Farmer Collection Centers:** investments for transit storage, including warehouse for raw materials, quality testing and weighing equipment, drying yard, packaging, pre-cooling unit, milk collection point, etc.;
- **Rural Transformation Hubs:** investments for primary processing (sorting, grading, packaging, cold storage, etc.), including a small facility for inputs to farmers (seeds, approved pesticides, fertilizers, mechanization, animal feed, etc.), nurseries for the production and distribution of certified planting materials, feed grain production unit, etc. Depending on the production basins, RTHs may also include animal health and artificial insemination services.
- **Privately owned and managed.** The FCCs and RTHs will be designed based on sound business model and market demand. They will be linked to the IAFPs and support themselves by providing paid services, including for sourcing, storing, drying, and bagging raw material at commercial rates, distributing agro-inputs on behalf of importers as commission agents, and accepting fees for any other services purchased by farmers, processors or traders. They will be able to also establish contract farming with local producers.

<sup>16</sup> The supply chain development approach promoted by IFC may be considered for these investments. In this case the cost/responsibility is shared between public and private in terms of working with farmers for good supply chains.



- c) *Agribusiness Value Chain Task Force*: The project will support the creation of an Agribusiness Value Chain Task Force under the oversight of the High Economic Council. The main functions and responsibilities of the task force are fourfold: (a) advise on strategic direction and activities of the Agribusiness Charter; (b) approve its Annual Work Plan and Budget; (c) ensure effective coordination among the key line ministries (MAIL, MoIC, MoF and other agencies), public entities and development partners for the delivery of the Charter's interventions, including budget planning, implementation, monitoring and achievements; and (d) review the Charter's implementation progress reports and advise on the effectiveness of ongoing activities, and on any adjustments needed in the annual work plan.

## SAFEGUARDS

### A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project activities are expected to be implemented sequentially in five selected provinces of Afghanistan; namely Mazar e-Sharif, Kandahar, Kabul, Herat, and Nangarhar. Foreseen activities include on-farm investments (access to inputs and technology), construction of farm collection centers, rural transformation hubs and agri-food parks. These investments (especially agri-food parks) include major infrastructure development (connecting and internal roads, water and energy access, communication, etc.), storage facilities, processing plants, food labs, as well as waste management facilities which may have adverse social and environmental impacts (pollution, land acquisition, pesticide use, etc.).

### B. Borrower's Institutional Capacity for Safeguard Policies

The Ministry of Agriculture, Irrigation and Livestock (MAIL) will have overall responsibility for project implementation. In the past, MAIL has been responsible for implementing several World Bank-funded projects (NHLP, AAIP, etc.) in a satisfactory manner along with the safeguard policies associated with the projects which were handled efficiently and effectively. MAIL's track record in managing other projects (EU, JICA, IFAD and USAID), is evidence that it has acquired sufficient capacity to support the PCU for the proposed project from all technical, fiduciary, safeguards and M&E viewpoints. When relevant, good practices will be shared between current Project Coordinating Units, and mutual support will be considered with the present project. The proposed project will have qualified social and environment safeguards experts along with safeguard focal points at provincial level. The safeguard focal points will supervise the implementation of ESMF and also will train the ministry staff to manage the environmental and social concerns from both the managerial and technical perspectives. However, the project will still develop methods and procedures to enhance the capacity of the environmental and social safeguards teams and will benefit from hands-on training from the Bank safeguard specialists. Since it is a category A project, it is important that the Clients Safeguards capacity including GRM are vital and it should be in place by appraisal.

The Ministry of Industry and Commerce (MoIC) will be the second main partner implementing ministry. It would share some of the implementation responsibilities with MAIL. MoIC has similar capacity to assume these responsibilities given its track record for other projects. It would be subjected nevertheless to the same fiduciary assessment as MAIL.



C. Environmental and Social Safeguards Specialists on the Team

Mohammad Arif Rasuli, Environmental Specialist

Qais Agah, Social Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>This project is planning to support the development of a number of agri-food parks (Component 2). These parks will involve (i) the development of industrial sites on about 20 to 50 ha of land mostly located in peri-urban areas (2 to 3 sites to be identified), including clearing of land, access roads, sewage, internal roads, power and water supply, etc.; (ii) possible displacement of people; (iii) establishment of food processing units such as juice making, drying raisins, mills, drying/packaging of fruits and vegetables, animal feed, dairy processing, poultry processing, etc., which may generate waste and pollution; and (iv) in-flux of a large number of labor in the industrial zone. These activities may have adverse impacts which may be significant and irreversible. The exact locations of these investments are not yet known and will not be identified before appraisal. Therefore, an Environmental and Social Management Framework (ESMF) will be prepared.</p> <p>Consistent with Environment Assessment OP 4.01, the proposed project is assigned an EA Category of A. The client will prepare the following safeguard instruments to comply with the applicable safeguard policies, WB Environment, Health and Safety Guidelines (EHSs) and national law. The client will conduct meaningful and participatory stakeholder consultations in Kabul and affected areas to prepare such instruments: (i) Environment and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF) for entire project which include ToR for consultant to conduct ESIA; (ii) After Identification of exact locations for Agri-food parks, the Environmental and Social Impact Assessment (ESIA), Environmental and Social Management Plan (ESMPs) and the Resettlement Action Plan (RAP) if required, for the identified Agri-Food Parks; and (iii) The draft terms of reference (TOR)</p>



for these studies needs to be prepared by the client and will be reviewed and cleared by the Bank. The environmental and social instruments will be prepared by independent consultant not involved in the project's feasibility study and detailed design; reviewed and cleared by the Bank; and publicly disclosed in English and local languages before appraisal of the proposed project.

In addition, the ESMP will be an integral part of the bidding documents for the bidders to bid and cost accordingly.

Performance Standards for Private Sector Activities OP/BP 4.03	No	Since the project would be owned, designed and be implemented and supervised by government; therefore, the WB Performance Standards OP 4.03 would not be applied.
Natural Habitats OP/BP 4.04	Yes	The project will be implemented on urban and rural areas. This kind of environment concentrates various insects and others types of animals, whose natural habitat could potentially be affected by the project's activities mainly with the construction of agri-food parks. However, there is no specific safeguard instrument to be prepared. This issue will be considered as part of the ESMF.
Forests OP/BP 4.36	TBD	The project areas may include plantations zones (pistachio, wall nuts, fine nuts, etc.) which could possibly be impacted by foreseen interventions (agri-food parks, FFCs, RTHs, etc.). As in the case of natural habitats, only a chapter will be included in the ESMF on forested areas protection.
Pest Management OP 4.09	Yes	The project will aim at increasing the production and productivity of the horticulture value chain in the project areas. Even if the project does not purchase fertilizers and agro-chemicals directly, it may induce the use of those products by farmers for pest and disease management. Consequently, an IPMP will be prepared.
Physical Cultural Resources OP/BP 4.11	TBD	Activities supported by the proposed project such as the construction of the agri-food parks and storage/warehouse facilities will unquestionably involve excavations with possibilities to underscore physical cultural resources. However, the triggering of this policy does not entail the





		preparation of a specific safeguard instrument. The ESMF will include a chapter providing guidance in case physical cultural resources is discovered.
Indigenous Peoples OP/BP 4.10	No	“No Indigenous Peoples communities are present in the project area, as defined in OP/BP4.10.”
Involuntary Resettlement OP/BP 4.12	Yes	The planned interventions such as the agri-food parks and storage facilities are expected to lead to land acquisition or restriction of access to sources of livelihood. Therefore, the client will prepare the RPF which will be used as a guide to conduct specific Resettlement Action Plans (RAPs) as needed, as well as compensation measures to minimize negative impacts on Project Affected People (PAPs). The client will conduct meaningful and participatory stakeholder consultations in proposed five areas to prepare such instruments. The RAPs and RPF will be reviewed and cleared by the Bank and publicly disclosed in English and local languages before appraisal of the proposed project.
Safety of Dams OP/BP 4.37	No	N.A.
Projects on International Waterways OP/BP 7.50	No	N.A.
Projects in Disputed Areas OP/BP 7.60	No	N.A.

**E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jan 21, 2019

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

21 Jan. 2019

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