



Asia Development Bank
Rural Business Support Program (RBSP) Afghanistan

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Program	Rural Business Support Program
Project Funder	Asia Development Bank funded by Japanese Fund for Poverty Reduction
Program Officer	Ms. Donneth Walton Senior Rural Development Specialist Central and West Asia Department Asia Development Bank
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Executing Agency	Ministry of Finance, Islamic Republic of Afghanistan
Implementing Agency	Ministry of Agriculture, Irrigation and Livestock
Consulting Organization	Roots of Peace
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Abstract	This report has revisions to the key sections of the Inception report already submitted to ADB in February 2008.

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I. Introduction

This report is in response to the Asian Development Bank (ADB) Aide Memoire of 13 April 2008¹. The report contains a brief summary of the Project Approach followed by revised key portions of the Inception Report. The revised key portions include the following: (i) the preliminary 2008 Project Work Plan, (ii) the preliminary Project Implementation Schedule, (iii) the Project Procurement Plan, (iv) the Project Funds Flow, (v) the Project Budget and (vi) the pre-feasibility studies of value chains proposed for funding consideration by the Project.

II. Summary of Project Approach

The Project will follow a market-driven, value chain development approach to meet the Project's objectives. A step-by-step process will be followed in selecting the value chains in the targeted provinces (Bamyan, Balkh, and Nangahar), in selecting the value-added activities within those value chains, and in identifying the targeted districts in each of the three provinces². The value chains will be selected based on:

- Product's comparative advantage;
- Development needs of the product's value chain in the province;
- Feasibility of value-added marketing, processing, and production activities;
- Sustainability of value-added activities; and
- Stake holder readiness in investing and adopting improved technologies within the value chain of activities.

Selecting the core value-added activities in each of the value chains will be based on the constraints and gaps identified and the risks and returns associated with investing in the value-added activities. To assist the project participants to invest in new production, processing and marketing technologies, the Project will perform a brokerage function to assist participants in accessing credit from existing financial institutions to support feasible, profitable investments. The Project will provide associations of producers and merchants with targeted training on production, processing and marketing designed to address constraints/gaps and opportunities in the targeted value chains identified for support.

The districts will be selected based on:

- Available supply of the raw agricultural product within the value chain;

¹ Asian Development Bank, JFPR 9100-AFG: Rural Business Support Project Inception Mission, 4-14 April 2008. The Mission comprised Donneth A. Walton, Senior Rural Development Specialist and Allan T. Kelly, Principal Economist.

² Kandahar province has been eliminated as a target province because of the continuing insecurities present within that province.

- Availability of necessary infrastructure (water, electricity, farm-to-market roads);
- Level of security;
- Readiness of stakeholders to participate in the district-level, value-added activities; and
- Extent to which core value-added activities are not duplicated in the district.

III. Value Chain Pre-feasibility Studies

Pre-feasibility studies were prepared of various value chains proposed for support in the three provinces of Bamyan, Balkh, and Nangarhar (see Annex 1). For each value chain, the gaps and constraints, opportunities, and potential interventions were determined. Once the pre-feasibility studies are reviewed and agreement reached on the value chains to receive project support, strategic decisions will be made to identify where along the value chain the greatest value addition can be achieved.

1. Bamyan Province

In Bamyan, the proposed value chains for consideration include potatoes and carpets. With the potato value chain, the domestic and regional demand for potatoes is driving the Project activities. Potential value-added, project interventions include:

- Increasing clean seed potato production that will lead to increased ware potato productivity;
- Assisting potato producers and traders in developing modern potato storage facilities both in Bamyan and in Kabul (or other appropriate locations in between) that will significantly lower the percentage of post-harvest losses and help extend the potato marketing season; and
- Improving grading, sorting, and packaging that will increase the value of the potatoes marketed.

Districts within Bamyan province that are involved significantly with development of the potato industry will be considered for selection as part of the Project's potato value chain work. Bamyan district is the major potato producing district in the province. Potato production in Yakawlang and Shibar districts are in an early stage of potato development; however, there may be good potential within these districts for increased potato productivity and other, feasible value chain interventions.

Hand-made carpets are produced in Bamyan and are marketed internationally. Within the carpet value chain, there exists significant international demand for good quality, modern designed carpets that are hand-woven using quality inputs, professionally cut and washed using environmentally-friendly techniques, and marketed direct to western markets as an Afghan-branded carpet. Potential value-added, project interventions include:

- Assisting stakeholders in direct marketing of Afghan-branded carpets to lucrative, western markets;
- Assisting stakeholders in developing carpet cut and wash facilities in the province; and

- Improving carpet quality through improved quality of inputs.

The proposed districts for the Project interventions in the carpet value chain are Bamyan, Yakawlang, and Shibar districts where most of the carpets are produced.

2. Balkh Province

Pre-feasibility studies of carpets and edible oil processing value chains have been conducted in the Balkh province.

In Balkh, the carpet value chain was considered based on the opportunities in international carpet marketing. The principal value added activities are similar to those given in the Bamyan case.

The proposed districts for the Project interventions in the carpet value chain are Dawlat Abad, Dehdadi, and Narhri Shahi districts. Dawlat Abad district is the major carpet producing district in Balkh province. There are many carpet weavers in Dehdadi district. In Narhri Shahi district, there are many newly returned Afghans that have settled in the district and have been receiving assistance in carpet making.

The edible oil processing value chain was identified for consideration because there is an edible oil processing cottage industry functioning in Mazar, albeit in need of modernizing and additional investment. Farmers in Dehdadi, Shulgara, and Balkh districts in Balkh province are producing sesame and flax to be sold to the processors of the edible oil. With imported edible oil prices having increased dramatically, there is potential for the Balkh edible oil industry to substitute in Afghan markets more of its own locally-produced edible oil for the imported edible oil.

3. Nangarhar Province

Pre-feasibility studies have been conducted in Nangarhar province on garlic, milk, and edible oil value chains. The garlic value chain has potential based on the international demand for garlic, the price for the fresh product, and the readiness of producers to diversify their crop mix. Various districts, including Rodat, Behsoud, Batikot, Kama, and Sukhrod districts, in Nangarhar province have suitable irrigated land with potential for diversifying into garlic production.

Project interventions in the milk value chain in Nangarhar has potential as Nangarhar farmers have significant numbers of dairy cattle and buffaloes and are producing and selling milk on a commercial scale both locally and to Peshawar. Processing and marketing opportunities for pasteurized milk and for larger volumes of milk for the domestic market and for the export market to Pakistan provide the justification for giving this value chain serious consideration for Project support. The targeted districts are Batikot, Kuz Kunar, Sukhrod, and Behsoud districts.

The edible oil processing value chain was identified for further consideration because there is an edible oil processing industry functioning in Jalalabad. There is potential to assist the cottage-scale oil processors in expanding and modernizing their processing equipment and machinery to be able to produce edible oil that competes with imported edible oil. Farmers in, especially, Batikot, Sukhrod, and to some extent in Rodat districts in Nangarhar province are producing cotton primarily for the lint and

cottonseed, and oil processors are benefiting from the production of processed products, such as the cottonseed oil and oilcake.

IV. 2008 Work Plan

The preliminary 2008 Work Plan describes the Project's potential financial, business, and organizational development support activities and the monitoring and evaluation activities that may accompany the value chain development initiatives. The Project may support business service providers who may assist Project-supported investors in accessing credit by helping them prepare business plans and financial documents required by commercial banks and the provincially-located MFIs possibly working under the MISFA institutional framework.

The Project's training for value chain development will be targeted for those activities in the three provinces that fill the gaps in the chain. The training will involve train the trainers programs, group or association training, and individual stakeholder training by value chain. MAIL extension agents, RBSP extension agents, and/or Project-contracted, extension organizations will be integrated into the train the trainers programs and be supported in training the Project's stakeholders in improved production, processing, and marketing techniques.

The Project will integrate training and technical assistance activities with the Private Sector Department of the MAIL. To develop the technical staff within the Department, the Departmental staff will be involved in the planning, implementation, and monitoring and evaluation of the Project's value chain development activities.

The Project's monitoring and evaluation activities will include:

- Developing a monitoring and evaluation framework, including the monitoring and evaluation program design, the reporting mechanisms, the project's performance targets and deliverables, and the assumptions and risks inherent in the Project's approach;
- Conducting a baseline survey;
- Regular monitoring and evaluation reporting;
- Project impact assessment; and
- Project progress against established deliverables.

V. Project Implementation Schedule

The Implementation Schedule gives a 32-month timetable for the major Project activities divided into two components: value chain development and project management (see Annex 2). The Project support activities of the selected value chains, targeted district and provincial stakeholders, and the private and public institutions are initiated early in the Implementation Schedule. Essential follow-through activities are then continued as long as necessary to effectively transfer improved agricultural and agribusiness

technologies and to build sustainable, value-added activities. Other significant parts of the Schedule include:

- Training activities which will be based on the needs as identified in the pre-feasibility studies and agreed upon by ADB and the MAIL;
- Vital role the business service providers and financial institutions will play in the project beneficiaries' access to credit to make the necessary investments in the various value chain gaps; and
- Feasibility studies on various, Project-supported, value-added activities coupled with the environmental impact assessments that are needed to develop proper mitigation measures.

In addition to the activities within the two major components, value chain development and project management, three studies will be conducted, including:

- Pre-feasibility study on establishing modern livestock slaughterhouses in Kabul and in regional cities of Afghanistan;
- Feasibility study on Sharia law compliant loan products for farmers; and
- Study to develop a microfinance loan guarantee mechanism.

VI. Project Procurement Plan

A procurement plan for \$12,356,000 is given in Annex 3. The Plan includes procurement and/or contracting of goods, works, and services. The Plan also includes a detailed list of contracted procurement packages (vehicles, equipment, and consulting and other contractual services).

VII. Project Funds Flow

The funds flow charts are provided in Annex 4. The funds flow is the responsibility of the Project Management Unit/Project Implementation Unit to be established in MAIL.

VIII. Project Budget

The Project Budget describes the amounts budgeted for each itemized category within the Core and the Roots of Peace budgets (see Annex 5). The total Core budget is \$12,356,000 and the total RoP budget is \$5,644,000. This projected Core budgets for the consultants (\$840,000), credit facilities (\$8,030,600), the equipment/machinery/materials (\$510,000), and the training/workshop/seminar (\$165,000) are indicative and will need to be modified over time.