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Washington, D.C.

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McNamara Papers

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Travel Briefings: Afghanistan - Travel briefs 01

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AFGHANISTAN

AFGHANISTAN

11/12/68
(Kabul) Enwer Ziyaie, Minister of Finance
Abdul Samad Hamed, Minister of Planning
Mohammad Akbar Reza, Minister of Agriculture
Mohammad Hussain Messa, Minister of Public Works
H.R.H. Sultan Mohamoud Ghazi, President, Civil Aviation Authority

" Meeting with the Ministry of Planning (Robert Nathan's group)

" Mohammad Zahir Shah, King of Afghanistan

" Dr. Ali Ahmad Popal, First Deputy Prime Minister

11/13/68
(Kabul) Prime Minister Nur Ahmad Etemadi (dinner)

11/13/68
(Kunduz) Dr. Mohammad Habibi, Governor of Kunduz Province

Q. Lebanon

- 1. Bob Waller in firm has a team in ^{Yemen} ^{chief mission} ⁱⁿ ^{off} ^{has} ^{had} ^{for} ⁷ ^{years} -
- 2. Borrowed a lot of money from ^{Sovs} & aid from ^{US} & ^{FEB} -
- 3. Lacked roads & infrastructure
- 4. Sovs have put in twice US amt in past 7 yrs -
- 5. From dem pt of view country began to move (roads, dams, irrig, etc)
- 6. PDR in 3rd 5 yr plan began to push hard on agr & indus to get off borrowing, borrowing - tried to get them to cut down on infrastructure & push on private sector in agr & indus
- 7. Have cut down on infra but private sector hasn't moved in indus - have had trouble Indus Dev Fk - main problem is socialist & is gov't enterprise -
- 8. Man of Agr (Kaza) quite good - Amer trained
- 9. Min of Plan - bright, Swiss trained - good but academic
- 10. Bob Newman Amer Eng - prof of sci at State U CA
- 11. A monarchy & the king has credit in '85 decided tough, tight monarchies don't survive in the 20th cent. so he called together the boys in - they drafted a const (no member of royal family can be Pres or member of gov't) - have had a democracy for 4 yrs (a 2 yr parliament) but ^{the} ^{gov't} ^{has} ^{not} ^{worked} ^{well} but king has stayed out of the picture & by & large have made progress substantially but country hasn't developed very well.
- 12. Min of Econ Etamadi - not un-intelligent, but doesn't make decisions
 Zayji: Min of Fin: not bad; a technician not a politician -
 Nardis: Min of Trade & Com: good; Yafati: Dep. Pres for Econ: intell.
 + Sept -

13. A picture I hope but frustrating -

14. Relations with Pk: very, very, bad -

worst thing had to do with Indus. Div. Pk: 4 yrs ago Afghan wanted to start: ^{US} did ^{not} support; came to Pk: Demand was sympathetic but then opposed - sent mission after mission + said maybe we will & maybe we won't; finally Afghan went to Chash but said if Pk ^{or IFF} ^{is} to have major role, cut them out - (that's why, on the land says we will only go if Pk does) - Chash worked out a deal but Pakistan has been meddling forever -

have a chance of import - displacement but no devel. financing -

15. ^{are} ^{not} ^{blowing} ^{now} - don't know whether to go to them or what -

Bk should say take Chash - or if Bk goes in don't meddle -

16. 2nd problem has to do with agri - Pk has a serious chronic -

low level of ^{or} ^{missions} ⁱⁿ ^{agri} ^{credit} which apparently we also for their agri Pk + the matter has been hanging fire for a year now: has been sitting there for a year so get it off of dead etc -

17. A good country, good people, has potential; an independent country

18. Must be both sensitive in dealing with them + get firm -

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Kabul, Afghanistan

Office of the Director

November 13, 1968

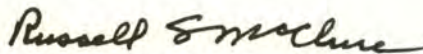
Mr. Robert S. McNamara
President, International Bank for
Reconstruction and Development
Washington, D. C.

Dear Mr. McNamara:

Attached is a brief "talking paper" dealing with the need for supplemental financing of Afghanistan's 1969 fertilizer requirement. In the interest of brevity it has been kept non-technical. In the event it becomes desirable to back up the estimated requirement for phosphate, the USAID can provide full documentation. The estimate is solid.

Thank you for your help in seeking assistance with this problem so important to the Afghan economy.

Sincerely,



Russell S. McClure
Director

532/1/31

Need for Fertilizer Financing for Afghanistan's "Green Revolution"

Afghanistan's wheat program is on the move. Since 1966, when they started their accelerated wheat program, they have increased the improved Mexican varieties of wheat so that there will be more than ample seed to plant all the irrigated land devoted to wheat in the fall of 1969. Seed will not be the limiting factor. However, continued success of the accelerated wheat program depends on the availability of fertilizer.

A requirement of 25,000 metric tons of urea and 16,000 metric tons of di-ammonium phosphate (or the nutrient value in other fertilizers) will be needed to plant the improved seed wheat that we feel the Royal Government of Afghanistan can physically make available to farmers in the fall of 1969.

The U. S. S. R. reportedly has agreed to provide funds equivalent to 25,000 metric tons of urea (45% N). This leaves unsatisfied a requirement for phosphate which can be met with 16,000 metric tons di-ammonium phosphate (16-48-0). Research results indicate that the optimum wheat production on the improved varieties in Afghanistan require nitrogen and phosphate in a ratio of two parts nitrogen and one part phosphate. Experience demonstrates that the most economical combination for Afghanistan would be to obtain the urea from the U. S. S. R. and obtain di-ammonium phosphate from other sources such as the United States.

Afghanistan has requested that the United States provide \$2,000,000 for the purchase of 16,000 metric tons of di-ammonium phosphate. The USAID has been informed by AID Washington that curtailment of development loan funds makes it impossible for the United States to provide the requested \$2,000,000. If Afghanistan is unable to purchase phosphate from the United States or some other source, they will have to forego a portion of their intended purchase of urea from the Russians and substitute Soviet phosphate to correspond to the two to one ratio mentioned above. If they are forced to do this, it is anticipated that the Ministry of Agriculture and Irrigation either will recommend applying one-half the present rate per acre of fertilizer or that only one-half the acreage of improved wheat be fertilized. The result in either instance will be a 50% reduction in yield from the improved wheats... a serious setback to the accelerated wheat program.

In the absence of U. S. FY 69 loan funds for this purpose, it is important that an alternative source of financing be identified quickly to permit purchase and shipment of the needed phosphate for arrival in Afghanistan no later than August 1969.

Date November 12, 1968
No



Kabul

Afghanistan.

MINISTRY OF FINANCE
TREASURY DEPARTMENT

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Dear Mr. McNamara:

The Government of Afghanistan is appreciative of the positive attitude that you expressed at the recent meetings in Washington both in your speech, and in private conversations. The Government is pleased that you have now taken the time to come to Afghanistan to learn at first hand the needs of the country and to explore ways by which the World Bank Group can be of greater service in our developmental efforts here.

To facilitate discussions during the short time you will be here several statements are herewith presented on the following subjects:

1. The Present Economic Situation in Afghanistan. This statement is a brief analysis of our current problems of economic stability and development together with a statement of what the Government is doing to bring about a resumption of economic growth.

2. Proposed Topics for Discussion on Policies and Procedures. This statement identifies four areas on which we would like to have discussions. In addition, we would like to review problems of implementation of the IDA Educational Loan.

3. Request for Assistance on Specific Projects. This statement covers the projects which I discussed with you recently in Washington and in addition includes reference to others to which we would like to direct your attention.

It is the hope of the Government that the aforementioned statements will form the basis for useful and profitable discussions and that the World Bank Group will be able to play an expanded role in our development program.

Sincerely yours,
A. Suway
Minister of Finance

Mr. Robert S. McNamara
President
World Bank Group

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LEWIS & CLARK
MINISTERS OF FINANCE

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Date 1954



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THE PRESENT ECONOMIC SITUATION IN AFGHANISTAN

The present status of the Afghan economy is one which is marked with a degree of stagnation which is brought about by the conjunction of a number of factors all bearing on the level of aggregate purchasing power:

(1) The very poor grain harvest in 1345 (1966) resulted in sharp price increases which drained off mass purchasing power from the non-agricultural sector without a comparable increase in the income going to agriculture (Appendix 1).

(2) Export earnings other than natural gas, have not been at satisfactory levels due to a combination of weak foreign demand for some commodities and a decline in production of others (Appendix 2).

(3) A completion of some large public construction projects has decreased employment in the public sector directly and in material supply industries such as cement, sand and gravel, and at the same time private construction has declined with like effects (Appendix 3).

(4) A decrease in the availability of foreign aid has taken place as compared to past rates which has not allowed new construction at a sufficient level to maintain stability in the economy.

(5) The rising cost of foreign debt service coupled with the poor export earnings has brought about a dangerous decline in foreign exchange reserves which would have indeed been critical had it not been for the compensatory drawings from the IMF (Appendixes 4 and 5).

(6) Given the foregoing factors industrial output has declined since 1345 and continues to remain at relatively low levels. Fortunately, agricultural output is up due to two successive years of favorable weather

conditions to the intensive efforts made by the Government in implementing an accelerated wheat production increase program and to higher crop prices which have provided incentive to increase agricultural production.

The Government has taken several measures in these circumstances:

(1) It has provided additional price incentives in karakul, wool and cotton in an effort to increase production for export to bolster export earnings.

(2) It has requested and received a compensatory drawing from the IMF to tide the economy over the difficulties created by the fall in export earnings and relatively high level of imports.

(3) It has attempted to speed up the implementation of public construction projects for which funding is available.

(4) It has continued to make moderate overdrafts at the Da Afghanistan Bank to keep the public investment program at as high a level as possible without dangers of inflation.

(5) It has encouraged investment in agriculture and in manufacturing and processing in the private sector to the extent possible within the existing limits of financial and other resources. Future success in large part depends on the agricultural and industrial banks (see Part III below).

(6) It has made a revision of the proposed expenditures under the Third Five-Year Plan affecting 1348, 1349 and 1350 to bring expenditures in realistic alignment with the resources which can be made available through the revised tax program including new taxes, increased rates on existing taxes, particularly in respect to direct taxes, and improved administration, which is to be put into effect (Appendix 6).

Despite the actions which have been taken by the Government, it is still our considered opinion that we cannot resume a satisfactory rate of growth without an increase in foreign financial assistance. Such assistance must take account of the growing debt service charges and the relative difficulty of expanding exports to bring about a manageable balance of payments position over the next several years.

Appendix 1

A. ESTIMATED PRODUCTION OF PRINCIPAL AGRICULTURAL CROPS

Afghanistan, 1963/64-1967/68

Crop	1342 1963/64	1343 1964/65	1344 1965/66	1345 1966/67	1346 1967/68
<i>ag per acre</i>					
<u>(Thousand metric tons)</u>					
<u>Foodgrains</u>					
Wheat <i>1300</i>	1,947	2,250	2,282	2,033	2,200
Corn <i>1300</i>	713	720	720	720	730
Barley <i>1300</i>	378	380	375	375	375
Rice <i>6000-8000</i>	319	325	325	337	345
Total	3,357	3,675	3,707	3,465	3,650
<u>Industrial Crops</u>					
Cotton <i>1600</i>	110	79	75	61	57
Sugarbeet <i>1300</i>	56	31	56	56	52
Sugarcane	45	48	51	51	51
Oilseeds ^{<i>1/</i>} <i>3000-4000</i>	50	52	52	55	55
Total	261	210	234	223	215
<u>Fruits and Vegetables</u>					
Fruits <i>5000-6000</i>	335	365	370	372	400
Vegetables	530	560	580	590	600
Total	865	925	950	962	1,000

1/ Oil seeds other than cottonseed

Source: Ministry of Agriculture and Irrigation

B. NATIONAL PRICE INDEX

Afghanistan 1962/63-1967/68

	1341 62/63	1342 63/64	1343 64/65	1344 65/66	1345 66/67	1346 67/68
(1961/62=100)						
All Items Index	98	132	156	170	214	264
Food grains	96	144	173	186	247	336
Meat	98	110	145	175	217	212
Fruit	100	138	147	168	188	177
Vegetables	104	128	139	145	157	156
Other foods	107	107	130	141	151	152
Non-food items	102	99	99	103	111	111

Source: Ministry of Planning Survey of Progress, August 1968.

Appendix 2

MERCHANDISE TRADE OF AFGHANISTAN, 1343-1346

(Millions U. S. Dollars)

	1343	1344	1345	1346
Commercial Exports				
Traditional	63.24	68.65	63.74	62.05
Natural Gas	---	---	---	2.98
Commercial Imports ^{1/}	66.85	58.31	66.68	65.13

^{1/} The sharp reduction of imports in 1344 was a singular aberration owing largely to the enactment of new import curbs in Afghanistan and the border conflict between India and Pakistan.

Source: Ministry of Planning Survey of Progress, August 1968

Appendix 3

DEVELOPMENT EXPENDITURE 1345, 1346

	<u>Expenditure</u> <u>Million Afs.</u>	<u>Distribution</u> <u>(%)</u>	<u>Expenditure</u> <u>Million Afs.</u>	<u>Distribu-</u> <u>tion (%)</u>
Grand Total	1,688.2	100.0	1,556.4	100.0
Infrastructure	1,411.3	83.5	1,041.5	66.7
Electricity Power	312.9	18.5	162.4	10.4
Transport & Com- munication	328.3	22.4	331.7	21.3
Social Services	682.4	40.4	320.6	25.0
Education	495.3	29.3	204.5	13.1
Other	187.1	11.1	186.1	11.9
Other	37.7	2.2	156.8	10.0
Productive Sectors	159.9	9.4	390.5	25.1
Industry	64.7	3.8	4.0	0.3
Agriculture	71.5	4.2	319.8	20.5
Mining	23.7	1.4	66.7	4.3
Studies and Investiga- tions	117.0	6.9	124.4	8.0

Source: Ministry of Planning Survey of Progress, August, 1968

Appendix 4

DEBT SERVICE RATIOS 1343-1346, PROJECTIONS 1347-1350

	A C T U A L				P R O J E C T I O N S			
	1343	1344	1345	1346	1347	1348	1349	1350
Debt Service Ratio ^{1/} (%)	13.4	8.4	10.0	17.3	24.6	23.4	24.0	24.7
Debt Service Payments (Millions U. S. Dollars)	8.46	5.75	6.39	11.28	19.00	20.00	22.20	24.40
Interest	4.84	1.96	2.15	7.66	9.00	10.00	11.00	12.00
Amortization	3.62	3.79	4.24	3.62	10.00	10.00	11.20	12.40
Commercial Exports (Million U. S. Dollars)	63.24	68.25	63.74	65.03	77.13	85.62	92.41	98.88
Traditional	63.24	68.65	63.74	62.05	68.03	74.02	78.51	82.08
Natural Gas	--	--	--	2.98	9.10	11.60	13.90	16.80

^{1/} Calculated as Debt Service divided by commercial exports, and includes only debt outstanding.

Source: Ministry of Planning

Appendix 5

OFFICIAL FOREIGN EXCHANGE RESERVES OF DA AFGHANISTAN
BANK AND PRIVATE BANKS 1343-1346 (Million U. S. Dollars)

	1343	1344	1345	1346
Total	6.79	13.76	5.41	4.09
Da Afghanistan Bank ^{1/}	4.53	12.13	2.95	2.00
Private Banks	2.26	1.63	2.46	2.09

^{1/} Includes small portions of exchange in inconvertible currencies.

- Reserves are shown less IMF transactions.

Source: Ministry of Planning Survey of Progress, August 1968

PROPOSED TOPICS FOR DISCUSSION ON POLICIES AND PROCEDURES

The several problems of the Afghan economy indicate the need for certain policies and procedures to be followed with reference to assistance from the World Bank Group:

(1) Need for Soft Loans

The circumstances are such in Afghanistan that there is an urgent need for additional foreign loans on a long-term, low-interest basis. This is true because of the poor balance of payments position that can reasonably be expected over the next decade or so. This poor position is related to the following factors: (a) the debt service of past loans will rise and the level will be high because of the contractual/^{obligations} of many of these loans, (b) regardless of the efforts to save on the use of foreign exchange there will be a continuing need for large amounts of loans from abroad to meet the development needs of the country, and indeed the efforts at import substitution will in fact increase our requirements in the short - and intermediate - runs, and (c) the opportunities for expanding exports, even if fully exploited, are not such that the economy can meet its requirements without the aforementioned soft terms on foreign loans.

(2) Need for Technical Assistance

Afghanistan will be in need of assistance in project preparation and at the present time this is one of the greatest deficiencies in its efforts to spur development. Due to the general financial position of the country, as noted, above, this assistance should be in the form of grants.

(3) Need for Economical Construction

All construction undertaken in Afghanistan, again because of our stringent financial position, should be of the most economical and simple design. We can in no circumstances afford any frills or furbelows or anything of a luxurious nature. All construction must be functional and designed to meet our needs at the lowest reasonable cost.

(4) Need for Simplified Procedures

The procedures involved in obtaining assistance from the World Bank Group in the past have involved many steps. We would like to explore ways of simplifying and expediting these procedures.

REQUEST FOR ASSISTANCE ON SPECIFIC PROJECTS

Projects discussed in Washington

- I. Kunduz-Khanabad River Basin Development Project
- II. Herat River Basin Development Project
- III. Agricultural Development Bank
- IV. Industrial Development Bank
- V. Road Maintenance Project
- VI. Tourism

New Projects for discussion

- VII. Farah River Basin Development Feasibility Study and Plan
- VIII. Chakhansoor Area Irrigation Development Feasibility Study and Plan
- IX. Mineral Development Project

I. Kanduz-Khanabad River Basin Development Project

1) Should be checked & construct
with foreign exp & support
Afghan construction labor -
2) May cost per acre
\$5,000 + with 15,000 -

This project is concerned with the development of irrigation and agriculture in the Kanduz-Khanabad region located in northern Afghanistan. During 1965 and 1966 a reconnaissance survey of the Kanduz and Khanabad River basins was conducted by the French firm, SOGREAH, for the Government of Afghanistan with financial assistance provided by the IBRD. The report published in 1966, contains detailed information on the irrigable land and water resources for the entire Kanduz and Khanabad river basins, an area of approximately 120,000 hectares of potentially irrigable land. The report also contains a detailed description of existing irrigation systems, an analysis of the current status of irrigation and agriculture in the region and points out the possibilities for further development and improvement of irrigation in six zones within the region.

1 would be
irrigating
better & would
add the
costs will

Of the six zones reported by SOGREAH to be suitable for the preparation of development projects two zones appeared to be comparatively superior. Subsequently the Government of Afghanistan with agreement of IBRD chose Zone 6 "Kanduz-Khanabad Left Bank" as the zone in which to begin work of the region. Zone 6 covers an area of 19,740 hectares of which 5,000 hectares are new lands to be brought under water command.

During the past year the Government of Afghanistan with assistance from UNDP has begun the detailed survey, feasibility and engineering design work for Zone 6. The work underway includes the preparation of aerial and topographical maps, geophysical and drilling investigations, underground water investigations, soil surveys, crop and livestock

production and marketing studies, socio-economic analysis and the preparation of engineering designs and development project plans. This survey will take approximately two years to complete. The report, expected to be published in November 1970, will provide the basis for a loan request to finance the construction works and development programs envisaged in the project.

The construction and development phases of the Zone 6 project will involve the following:

1. Construction of a headworks diversion dam near Chugha Pul on the Khanabad River.
2. Installation of a new irrigation canal network and improvements to existing irrigation systems for 19,700 hectares of agricultural land of which 5,000 hectares will be new land.
3. Establishment of an agricultural research farm and extension programs to gain the full benefits from the irrigation development and improvement works.
4. Provisions of modern agricultural production inputs, credit, marketing and storage facilities; developing measures for efficient and equitable water utilization and charges; and personnel training in various fields related to agriculture and irrigation.

The Government of Afghanistan has given highest priority to this project and requests World Bank assistance in implementing the construction and development phases envisaged in the project. The costs for developing Zone 6 "Kunduz-Khanabad Left Bank" have tentatively been estimated at 202 million Afghanis and \$7 million.

II. Herat River Basin Development Project

Nature and Purpose

This project is concerned with the development of agriculture, irrigation and power in the central part of the Herat Valley, located in western Afghanistan. This heavily populated region contains some of the most productive agricultural lands found anywhere in this part of the world. Irrigation water for the Herat Region is supplied by the Hari-Rud (River), one of Afghanistan's major rivers. The present irrigable land in the proposed project area which covers the central part of the basin is approximately 85,000 hectares of which only about 36,000 hectares or 42 percent are currently being irrigated and cultivated each year due to a shortage of water resulting from the uncontrolled state of the Hari-Rud and its tributaries.

The development works proposed for the central part of the Herat Valley will extend the area irrigated and cultivated annually to the entire 85,000 hectares of which about 30,000 hectares can be doubled cropped. Construction of two reservoir dams are proposed, one at Assarasum on the Hari-Rud and the other on the Kawgan River--a major tributary of the Hari-Rud. A headworks diversion dam will be built at Marwa, and two main canals will be dug to serve the valley lands along the right and left banks of the Hari-Rud. A hydro-electric station of 12,000 kilowatt capacity will be built on the right bank canal to provide electricity to pump water from a network of "boreholes" (wells) to be installed for drainage and irrigation of 16,000 hectares of land located close to the river between the proposed Marwa diversion dam and Herat city.

The cost of these improvements has been estimated at \$20-25 million and construction will take approximately 4 years to complete. The benefits of increased production from the project would be realized

on an average of **three to** / ^{four} years after start of construction.

Present Status of the Project

In 1960 the Government of Afghanistan asked the United Nations Special Fund for help in investigating the potentialities for improvement and development of the lands in the valleys of certain rivers in the western and northern parts of the country, including the Hari-Rud Basin. The request was granted and the survey work was started in September, 1960, and completed in June, 1963. A comprehensive report covering the findings from this reconnaissance survey was published in 1965 by the United Nations Special Fund in six volumes under the title "Survey of Land and Water Resources in Afghanistan." This report **gave high** priority to the future development of the Hari-Rud **Region.** Subsequently, a more detailed investigation of the Herat area was initiated by the U.N. Special Fund in 1965. The Fund report covering this work is nearing completion and will be published within the next few months. The report will contain a complete economic and technical feasibility analysis of the proposed project and specific proposals for the development of agricultural land, irrigation, power and the related economic and social institutions in the Herat region along with preliminary construction designs. This report will serve as the basis for a formal request for a loan needed to fully implement the project.

Recently the Government of Afghanistan signed an agreement with the Government of Yugoslavia wherein Yugoslavia will provide a line of credit in the amount of \$8.0 million for use in initiating the engineering and construction work on the Hari-Rud Region Development Project. Since this

loan will not be sufficient to complete the work envisaged the government of Afghanistan would like to request that the World Bank give consideration to participating in this development project. A formal loan request fully documented with the details concerning the economic feasibility prepared with assistance of the UN Special Fund would be available for submission to the World Bank by the end of the current year.

III. Agricultural Development Bank

Nature and Purpose of the Project

This project consists of the reorganization of the Agricultural and Cottage Industries Bank of Afghanistan and resumption of renewed credit operations on a limited scale in five carefully selected fields and in limited geographical areas.

The reorganization aims at providing sufficient independence to the Agricultural Bank in making loan decisions, sufficient capital to resume operations, more experienced personnel both Afghan and foreign, and suitable facilities for credit operations. It will also involve various legal measures to enable the Bank more efficiently to secure its loans against risk and to make loans to farmer associations and cooperatives with adequate legal status.

In drawing up the specific credit programs, the intention has been to concentrate efforts in a few regions or on specific crops and carry out operations on a limited scale in order to facilitate the Bank's reorganization and avoid excessive strain on the limited resources of qualified staff available.

The five pilot credit projects selected will allow the Bank to develop and test new procedures and revise them in order to expand its activities on a national scale for the effective promotion of private sector agricultural development in Afghanistan.

The five credit programs suggested are:

1. Baghlan sugar beet and cotton to provide short-term credit for current agricultural inputs to raise yields and increase areas under these crops. The loans will be recovered through the processing companies.

2. Traditional irrigation systems to increase the irrigated area and regularize the water availability through providing medium and long-term credit to water users' associations or groups of landowners.

3. Shallow and deep-well pumps to increase irrigated area through better use of underground water resources in Katewaz Province by providing medium-term credit for the purchase and installation of pumps.

4. Tractors to raise agricultural production through cultivating more land efficiently through medium-term credit for the purchase of tractors.

5. Koh-Daman grape farmers to increase grape and raisin production and improve quality by providing short- and medium-term credit for current agricultural inputs and implements.

Foreign technical assistance is considered to be a necessary and integral part of this project. The experts recruited would help reorganize the Bank, develop sound lending procedures and participate in the management and supervision of the proposed pilot credit programs.

Expected Benefits of the Project

The impact of this project on agricultural development cannot be measured by the benefits from the actual amount of credit made available at this first stage. The overall benefit derived from the reorganization of the Agricultural Bank and improved efficiency to enable it to carry out vastly increased credit operations in the future, will be substantial for development of Afghan agriculture. On the other hand, the failure of action in this respect will result in the continuation of an agricultural credit structure which at present does not offer a margin of expansion of production and will lead to further stagnation of the agricultural sector.

Present Status of the Project

A detailed project plan and loan request has been prepared for this project with expert assistance provided under the IBRD/UNDP Cooperative Program. This loan request document was submitted to the World Bank in April 1967 for consideration for an IDA loan. The request was subsequently declined. During the year and a half that has elapsed since our loan request was submitted to the World Bank, considerable progress has been made in the agricultural research and extension programs necessary to support agricultural credit operations. Storage and distribution facilities for handling fertilizers, agricultural chemicals, and farm machinery have been expanded and improved. Also, the feasibility surveys and engineering designs have been completed for a number of small-scale irrigation projects which are candidates for Agricultural Bank financing. A formal written request is being prepared for submission to the UNDP to provide technical assistance in the reorganization of the Agricultural Bank.

The Government of Afghanistan is giving highest priority to the rapid development of the private agricultural sector. Institutional agricultural credit is one of the key factors in accelerating innovation and growth in agriculture. The Government of Afghanistan will provide the necessary budget funds to the Agricultural Bank to compliment foreign loan funds that may be forthcoming in the future. An IDA credit to supplement domestic resources is vital to the successful implementation of the Plan. It is our hope that the World Bank will reconsider our request for assistance to the Agricultural Bank and that an IDA loan and technical assistance will be forthcoming in the near future.

IV. Industrial Development Bank

Early in 1966 a Project Manager was appointed with the task of bringing about the establishment of a privately-owned industrial development bank. In February, informal discussions were held with a representative of the World Bank about possible help in setting up such a bank. Shortly thereafter a formal request was made which resulted in first a reconnaissance and then, on accepting certain basic promises, an IFC mission being sent to Kabul to render technical assistance including preparation of a work program. The expectation was that IFC would stay with the project until the bank was actually brought into being. A formal presentation was made to IFC of all requested documents, including a draft law, articles of incorporation, policy statement, etc. Unfortunately, however, instead of the matter proceeding along the lines which had been discussed, IFC requested Afghanistan to find leadership elsewhere to consummate the project. In line with this request the Afghan sponsors were able to interest Chase International Investment Corporation in the project. Meantime, IFC revived its interest in the project, but through misunderstandings arising perhaps from faulty communications, IFC again withdrew its active interest to await the outcome of the negotiations with Chase. In December, 1967, an agreement was made with Chase to take the lead in putting together the foreign participation which would include IFC participation, if IFC were interested.

The main outlines of the proposal to establish a bank emerged as a result of the negotiations with the IFC and the help given in the past in this regard is much appreciated. IFC participation in the capital stock of the bank will be welcomed within the proposed framework of the agreement with Chase. The Government considered the proposed Industrial

Development Bank, with which is to be associated an Industrial Advisory Center, as essential to the successful implementation of the private industrial sector efforts under the Foreign and Domestic Private Investment Law.

V. Road Maintenance Project

The World Bank financed as a grant the preliminary study of the problem of road maintenance in Afghanistan. This assistance is much appreciated as it is recognized that an adequate maintenance of the road system is absolutely essential to our development program. The cost of the proposed phase I of the project had a higher cost for engineering services than was considered possible for the Government to bear. We are interested now in getting a grant from the UNDP to cover the cost of the engineering services, and are likewise interested in getting a loan from the World Bank Group to cover the cost of other components of the original proposed loan.

VI. TOURISM

Tourism has been a growing source of foreign exchange for Afghanistan in recent years and has promise of substantial increase. The new Intercontinental Hotel in Kabul and the increasing availability of jet aircraft connections with all major round-the-world routes provides basic transport and housing elements for handling much larger flow of tourists.

The country has many unique characteristics of great interest to the world touring community. The native villages with their colorful and different appearance; the bazaars with the products of cottage industry; these and the marks of ancient civilizations will attract visitors for a long time to come. There is Bamian and the many anthropological diggings; there are potentials for exploiting natural hot mineral springs such as in Obey, Dara Calo, Mazar-i-Sharif, Asdar and Istalif, and the like. The hunting and fishing potentials are already attracting many people from other countries. What is now needed is ^a systematic program of development of tourist facilities with better internal transportation and local hotel and living accommodations to attract a wider clientele.

The government of Afghanistan would therefore like to request consideration by the IBRD of assistance in the preparation of the expanded tourism program. The first step would be for technical assistance to prepare a program of investment and training. An earlier study by Miner Associates is already available. Upon the basis of the results of an agreed program a loan request would then be submitted to the World Bank.

VII. Farah River Basin Development Feasibility Study and Plan

The Farah River Valley located in southwestern Afghanistan also was included in the UN Special Fund investigation of land and water resources in Afghanistan conducted between 1960 and 1963. This preliminary survey of the region showed the total irrigable land area to be 59,200 hectares of which only 20,000 hectares are irrigated and cultivated each year due to irregular and insufficient supplies of irrigation water from the uncontrolled Farah River. The survey showed that it would be possible to construct a reservoir dam at three alternative locations of which Bakhshabad appeared to be the most feasible. Such a reservoir dam would control the Farah River and supply irrigation water sufficient to irrigate and cultivate all of the 59,200 hectares of cultivable land in the area.

The Third Five-Year Plan of Afghanistan (1967-71) calls for a detailed survey of the Farah River Basin including an economic and technical feasibility study and the preparation of irrigation development plans and designs. The government of Afghanistan would like to request assistance from the World Bank in financing the costs of conducting this pre-investment study. The cost of the study is estimated at around 18 million Afghanis and \$800,000.00.

VIII. Chakhansoor Area Irrigation Improvement Feasibility Study and Plan

The productive agricultural lands of Chakhansoor located in the southwest corner of Afghanistan are continuously threatened by the flood waters of the Helmand River. Over the years floods have damaged the irrigation canals serving the area and have caused thousands of hectares of prime agricultural land to be ruined. As a result agricultural production in the area has declined and poverty among people of the area is widespread.

The Government of Afghanistan wishes to assist the people in Chakhansoor restore their once productive lands by rehabilitating the irrigation canals in the area, and prevent further destruction of presently fertile lands from annual floods by constructing diversion dams.

Afghanistan's Third Five-Year Plan calls for conducting a detailed pre-investment survey of the principal agricultural lands and irrigation network in the Chakhansoor area including an economic feasibility analysis and the preparation of an irrigation, land and agricultural development plan for the area. The Government of Afghanistan would like to request World Bank assistance in financing the cost of this pre-investment investigation. The cost of the survey and design work for this project has been estimated to be 20 million Afghanis and \$1 million.

IX. Mineral Development Project

Afghanistan has huge iron reserves in Bamian province which have been extensively studied during the last several years. The iron ore deposits are of high grade magnetite and hematite with a potential total reserve of approximately two billion tons. The deposits contain other minerals as well which may be of commercial interest. A more lengthy description of the deposits is contained in the Appendix. Afghanistan is willing to make these reserves available for commercial exploitation, either as a basis for a regional steel industry in cooperation with other countries or for the purpose of export of iron ore or concentrates in the world market.

The Royal Government of Afghanistan requests that the World Bank send one of its experts to Afghanistan to review the prospects of development of these deposits and to make recommendations regarding what should be done to bring about their development.

APPENDIX

GENERAL INFORMATION ON HAJIGAK ORE DEPOSITS

The Hajigak area is situated in central Afghanistan in the south of the Baba mountains. The Hajigak Pass is located between the provinces of Farwan and Bamian.

Geographical location of the ore deposits are as follows:

Eastern longitude $68^{\circ} - 03' - 45''$
Northern latitude $34^{\circ} - 40' - 20''$

The Baba mountain range splits this uneven terrain along north-east. The maximum height of the area above sea level ranges between 2800-4950 meters. The relative height in the valleys ranges between 200 and 1500 meters.

The Hajigak area drains into the Bamian River in the north, to Helmand River in the south-west, and to Ghorband River in the east.

The biggest river of the area is the Calo. Its left bank is completely flat and is suitable for construction of living quarters, etc. for the workers. The capacity of water in Calo river in dry season is about 1500 cubic meters per hour and in the spring about 10,000 cubic meter per hour.

Climate:

This area has a dry and continental climate and the temperature varies greatly accordingly to various times of the day. The area has strong winds in the spring and heavy snow fall in the winter. Generally, it begins to snow

early in November and the snow remains until May. The annual snow fall varies between one half meter and one meter. The winter temperature ranges between -18°C and -38°C , and in summer between $+15^{\circ}\text{C}$ and $+30^{\circ}\text{C}$. The December to February temperature averages about -22°C and the June to August temperature averages $+25^{\circ}\text{C}$.

Calo is the nearest village to the deposit and has 500 inhabitants.

Bamian is the nearest provincial center to the area.

The iron ore reserves and other metallurgic and non metal reserves such as limestone and dolomite, etc., are well situated with respect to each other.

The Hajigak distance chart is attached.

Various aspects of the Hajigak Ores have been studied by following experts:

By Hyden in 1900, Carl Brookel 1934-1940, Dr. Sultan Ahmad Popal and Tromp 1959, G. Monji and Chaykin 1960, Bibochkin and I. Kurotchenko 1960-61, Albert de la Paran 1961, Sayed Hashim Miraad and Kalakouf 1961. The Department of Mineral Surveys of the Ministry of Mines and Industries during 1963-65 has also made an intensive geological study of the deposit with the cooperation of Russian experts.

A summary of this last mentioned study is as follows:

1. The study of the geology of the Hajigak area shows existence of mineral resources in several places such as Hajigak, Khish, Khazar, Koy

Zaran and Sabz-Sang. All these reserves in geological terms are part of the metamorphic complex of lower and middle Paleozoic era. From geological structure point of view, they form the southern anticline of the Baba mountains.

2. The Hajigak ores are composed of 16 mineral bodies and 14 detrital iron ore deposits. The mineral bodies are in form of two-horned veins. Their thickness ranges from 30 to 380 meters, and in some veins averages from 7 to 185 meters. The length of the veins varies between 60 and 4800 meters, while their average depth averages between 20 and 552 meters.

The detrital deposits generally are stratified and extend parallel to the main vein. The area covered by the deposits (on the basis of 1/10000 map) covers 859690 square meters. Their thickness is between 1.9 and 17 meters and averages 6.75 meters.

3. Careful exploratory work has been carried out in the western part of Hajigak deposits but in the eastern part estimates are of probable and possible reserves. Studies are based on trenching and drilling in which results have been recorded carefully and accurately.

4. The Khish, Kharsar, Koy, Zaran and Sabz-Sang deposits are geologically similar to the Hajigak deposits, but quantitatively they are very small.

5. Two different reserves have been identified in the Hajigak ore deposits, i.e. the main vein and the detrital reserves. The main vein contains the following minerals:

1. Non oxidized-pyrite magnetite
2. Semi-oxidized hydrogoethite half
3. Hydrogoethite hematite half martite
4. Carbonate martite.

The second and third elements are qualitatively very superior. They have a small percentage of sulfur and phosphorus and their iron percentage exceeds 62.5 %. These minerals are suitable for blast furnace and open hearth use. They do not require concentration.

The first element, i.e. pyrite-magnetite has 61.30 % iron but its sulfur percentage is relatively high and amounts to 4.56%. It may be utilized after its sulfur is taken out.

The fourth element, i.e. carbonate half martite is of self fluxing quality and has an average of 49.72 % iron. The sulfur percentage is low and the quality of mineral elements is very good. It may be utilized without concentration.

The detrital reserves have about 678 kilogram ore per square meter. The ore is of hydrogoethite half martite type. Its average iron content amounts to 61.15 %, sulfur less than 0.07 %, phosphorus less than 0.012 %. Other metallurgic impurities do not exist. Its quality is superior. Generally speaking, in this area there is more of the hydrogoethite half martite and hydrogoethite hematite half martite types. From among the useful residuals

we could name magnesium (MN), cobalt (CO) and copper (CU). Magnesium amounts to 0.11 %, and the others about 0.01 percent.

Although the useful residuals are of no basic importance nevertheless they affect the quality of steel favorably.

6. The estimated reserves are as follows:

	<u>million tons</u>
<u>Proved reserves</u>	110,972
Of which: Category A	9.068
Category B	19.245
Category C ₁	82.659
<u>Probable reserves (Category C₂)</u>	317.055
<u>Possible reserves</u>	1,333,335

The total reserves of Hajigak amounts to 1.8 billion tons. If the reserves of Khish, Khazar, Koy, Zaran and Sabz Sang are added, the grand total would exceed 2070 million tons.

It is observed that these reserves not only suffice the requirements for metal production in Afghanistan but it would form a great source of export as well.

From the point of view of exploitation, the locality of these deposits are very suitable because works may be performed to the depth of at least 250 meters in open pit mine, not requiring tunnel digging etc.

7. From the metallurgic view point, the Hajigak deposits are of the hydrothermal metasomatic quality and the depth of the area is between 100 to 130 meters.

8. In addition, in this area there are minerals such as barite, limestone, quartzite and dolomite.

9. In addition, studies have been made on coal reserves, limestone, quartzite, dolomite, magnesium and fire resistant clays and other materials needed for metal smelting, and their quantities have been determined.

The above is a summary presentation of the geological and exploratory studies of the Hajigak ore mine. But it should be mentioned that every aspect of this study is based on practical evidence.

On the other hand, it may be stated that in the entire area consisting of Iran, southern USSR, Afghanistan and Pakistan or in the entire area of Central Asia so to say the Hajigak ore deposits are a unique discovery qualitatively and quantitatively.

Translated from Dari by:
Sayed Khalilollah Hashemeyan
RNA/ 11.6.1968

HAJIGAK DISTANCE BY ROAD AND RAIL TO IMPORTANT CENTRES

<u>LOCATION</u>	<u>HEIGHT</u> (meters)	<u>DISTANCE</u> (KM)	<u>R E M A R K S</u>
Hajigak	3500	0	
Sheberghan (gas reserves)	450	448	Via Kara Kotal (2820 meters high)
Dare Souf (coal mines)	1950	285	" " " " " "
Kabul	1750	128	Via Shebar Pass (3000 met. high) 230 kilometers
Jalal Abad	700	278	
Pule Khumri via Salang	660	363	276 KM
Kunduz " "	550	468	Via Duab 381 KM
Mazare Sharif " "	480	583	489 KM
Herat	925	727	Via Central Afghanistan

EXTERNAL DISTANCES

TORKHAM border Via Kabul	900	376	
SPIN BULDAK border Via Kabul	1200	632	
The distance from border to Peshawar			is 50 KM
" " " " " Lahore			is 500 KM
" " " " " Shekarpoor			500 KM
" " " " " Karachi			1000 KM

U.S.S.R. via Sher Khan Bunder	442	519	
Marwa		1100	
Karismfosk		2200	
Bokhara		600	
Tashkand		1300	

IRAN via Spin Buldak and Baluchistan rail	900	633	
ZAHIDAN " " " "		1005	
Kirman " " " "		1495	
Bander Abbas " " " "		2050	

IRAN via Kandahar, Robot Kala (south of Chakansoor)	650	1073	
ZAHIDAN " " " "		50	
KIRMAN " " " "		590	
Bander Abbas		1150	

Mr. McNamara - background information on Afghanistan.
The writer is the former UNDP representative there.

UNITED NATIONS  NATIONS UNIES

RB'S 10/31

c/o World Health Organization - E133
Avenue Appia
Geneva

23 October 1968

CONFIDENTIAL

Dear Mr. Clark,

Mr. Lars G. Lind has written a personal letter to me to ask if I have any information or ideas which might be of value to you and Mr. McNamara in view of your forthcoming visit to Afghanistan.

As you may know, I left the country nearly three years ago, since when a great deal has happened. I did make a brief re-visit a year ago and had it confirmed that the turnover of ministers and senior bureaucrats continues to be high. And yet, I think that in the case of Afghanistan I can speak of a great deal of political stability.

I assume that your official contacts with ministers have already been arranged. What I can most usefully do is perhaps give a few personal comments on some of them.

The Minister of Finance, Mr. ZIAI (if he is still there, of which I am not completely sure), is, as far as I know, a layman as an economist but is said to possess a good deal of common sense. During my time in Kabul, he was the Deputy Minister and was, in fact, running the Ministry for many years. At one time, he fell into disgrace but was reinstated a year ago.

The Minister of Education, Dr. POPAL, used to be Head of the same Ministry and second Prime Minister during part of my time in Kabul. At the beginning of 1965, he was sent as an ambassador to Germany but was recalled last autumn. He is a person for whom I have a very great respect. He is honest, energetic and stable. The very heavy expansion of the school system in Afghanistan which has taken place over the last two years can be ascribed to his efforts.

Mr. William Clark
International Bank for Reconstruction
and Development
15th floor, New Zealand House
Haymarket
London, S.W.1

/over.....



page 2

The Minister of Agriculture, Mr. REZA, is a comparatively young man (I would think in his early forties). He is a hydrologist by profession, educated at the Massachusetts Institute of Technology. He is an extremely able and dynamic fellow, with very firm opinions. This makes him a bit difficult to negotiate with but I think I can truly say that Afghanistan needs more people of his kind.

Unfortunately, I am not very well acquainted with the new Planning Minister, but I know his deputy, Mr. HAIDER, quite well. He has certainly grown with his increasing responsibilities and I was quite impressed with him the last time I saw him.

The Minister of Public Works is probably the same man who was there last year. Unfortunately, I have forgotten his name^{x)}. If he is the same man, his acquaintance is well worth making. He was also trained in the United States, in the earth sciences. As Minister of Mining and Industries, he quickly made himself known for drive and efficiency. He was also a good administrator. I would regard him in the same class as Mr. REZA, although perhaps he has a more pleasant disposition.

Mr. Lind tells me that Mr. McNamara is also trying to establish a few contacts outside the circle of ministers and bureaucrats and asks my informal advice with regard to the possibility of such contacts in Kabul. I have thought the matter over pretty carefully and I think that Mr. McNamara would find it particularly interesting to meet two politicians. One is the Speaker of the elected chamber of Parliament, Dr. ZAHIR, who is a physician by profession. He is a shrewd fellow who has managed to run the new Parliament as well as could possibly be expected. He certainly has no easy job.

In Parliament, there is a Member for Kabul by the name of Mr. FARHANG. He is about 50 years old and served for several years in various positions in the government during the first half of the sixties. When I arrived in Kabul at the beginning of 1962, he was Deputy Minister of Industries and, later on, became Deputy Minister of Planning. He belongs to the left wing of Parliament and is said to be the leader of that wing. His opponents denounce him as a communist. However, he is not. If he were of my own nationality, he would probably be a social democrat, somewhat to the left of the

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x) It just came to me: Mr. MESSA-✓



middle of that party. He is an extremely intelligent man who has largely educated himself in economics and the political sciences. After school, he started out as a journalist. His name is really a pen-name and means "truth". He was also one of the leaders of the first political party that was ever formed in Afghanistan, in the beginning of the fifties. Since it was an opposition party, he was arrested and put in gaol for a couple of years. When he came out of gaol, he started his career in government service. Now he is again in opposition, his primary interest being to see to it that the civil rights and liberties granted to the people of Afghanistan under its new constitution are fulfilled. He is an excellent judge of political and economic developments in the country and I think that Mr. McNamara will find him interesting to talk to.

As for private business people, the obvious thing would probably be for Mr. McNamara, through the IMF representative on the spot, to get in touch with some of the people behind the Bank-E-Melli. I believe that one of them is Mr. SHALIZI who has held several government posts also. In 1965, he was Minister of the Interior for a brief spell. He is a talkative and entertaining man, but also quite intelligent. Personally, I found him a bit dangerous, however, because he was so moody.

Finally, Mr. McNamara might find it useful to get in touch with some of the people in the Robert Nathan group in the Ministry of Planning. This group is doing a very fine job in the Ministry and has acquired considerable influence on the economic policy of the country.

Mr. Lind also asks me if I have any special hints to give you with regard to the press in Afghanistan. Although there are one or two papers which are privately owned, they seem to be rather insignificant in comparison with the government-owned newspapers. There is one English-language daily called "The Kabul Times" which, incidentally, for its size contains a disproportionate amount of information about the United Nations and its agencies. The editor of "The Kabul Times" (another name I have forgotten), if he is the same man as during my years, is a very good journalist. As an interviewer and reporter, he is extremely faithful and reliable.

/over.....



page 4

As you will see from these brief hints and comments, there are a number of good people in responsible posts in Afghanistan. Their problem is, as in so many developing countries, that they are pretty much alone, lacking adequate support from the people who surround them in their respective ministries and institutions.

I hope that you will have a successful journey and enjoy your stay in Afghanistan. There is perhaps one thing that I should like visitors to that country always to remember, and that is that it must be seen in its own historical perspective. Just as, I am sure, no Englishman would blame Queen Elizabeth I for not introducing a compulsory sickness insurance scheme in her time, present-day visitors to Afghanistan must realize that their expectations should be kept at a level commensurate with what can reasonably be looked for at the present stage of its developments.

With kindest regards,

Yours sincerely,

Sixten Heppling

cc: Mr. L. G. Lind
Deputy Chief of Information
IBRD
Washington, D.C

OFFICE MEMORANDUM

TO: Records

FROM: C.G.F.F. Melmoth *GM*

SUBJECT: Afghanistan: Courtesy Call by the Minister of Finance

DATE: October 10, 1968

Mr. Ziyaie, Minister of Finance of Afghanistan, called on Mr. McNamara on October 9. He was accompanied by Mr. Achaczai, Mr. Noorzoy, Dr. Aman and Mr. Atayee. Mr. Knapp, Mr. Cargill and Mr. Melmoth were present.

The Minister said it was the first Annual Meeting which he had attended and he had found it very interesting, and he had been happy to hear the views expressed by Mr. McNamara in his opening statement. While in Washington he had also had some very useful discussions with Mr. Cargill in which he had had the opportunity to call attention to projects which the Government regarded as important. He hoped that Afghanistan could look forward to the Bank becoming more active in assisting the country.

The Minister went on to say that he understood that Mr. McNamara would be visiting Pakistan in the near future and he wished to extend an invitation on behalf of his Government to visit Afghanistan. Mr. McNamara thanked the Minister for his invitation and said that he very much hoped that it would be possible for him to pay a short visit to Afghanistan, possibly in the third week in November. Mr. McNamara went on to say that he too looked forward to closer relations with Afghanistan and a bigger participation by the Bank Group in helping the Government with its development problems. He thought it was a country where there had been courageous and dramatic changes made by the Government in recent years, and where there was an obvious need for more assistance. The Bank would be looking to see where its assistance could be directed. It was important, however, to make sure that capital was put where it could be used effectively and this was a particular point that he would be seeking more information about when he visited Afghanistan.

The Minister said that he was very happy to know that Mr. McNamara would visit Afghanistan, and he would defer until then further mention of other matters. He thanked Mr. McNamara for having found time for the exchange of views.

cc: Mr. McNamara
Mr. Knapp
Mr. Cargill
Mr. Goodman
Mr. Street

President has seen

CGFFMelmoth:dp

AFGHANISTAN - DRAFT BRIEF FOR MR. McNAMARA

I. ITINERARY

Biographical notes on King and Queen

II. GUIDELINES FOR DISCUSSION

Point to be raised by Mr. McNamara

Points likely to be raised by Cabinet Members:

- (a) IDA Lending Program
- (b) IFC - Industrial Development Bank of **Afghanistan**
- (c) Tourist Industry
- (d) Education Project - Credit 68-AF
- (e) Agricultural Development Bank (ABA)
- (f) Kunduz Khanabad Irrigation
- (g) Hari Rud Irrigation
- (h) Highway Maintenance Project

III. OUTLINE OF PROJECTS TO BE VISITED

- (a) Kunduz Khanabad Irrigation Project
- (b) School Center at Kunduz
- (c) Nangarhar Irrigation Project

IV. FACTS ON IBRD, IFC, IDA MEMBERSHIP AND BANK GROUP OPERATIONS

V. POLITICAL SITUATION

VI. ECONOMIC PROBLEMS AND SITUATION

VII. POPULATION CONTROL PROGRAM

1. Plan of work - name, no., when
2. Pos. on devel. Pk
3. Possible aid to agri. - agri. Pk -
4. Meet with: training of water eng.?
Newman?

LIST OF CABINET MEMBERS

Prime Minister and Minister of Foreign Affairs	Noor Ahmad ETEMADI
First Deputy Prime Minister and Minister of Education	Ali Ahmad POPAL
Second Deputy Prime Minister	Abdullah YAFTALI
Minister of National Defence	Gen. Khan MOHAMMAD
Minister of Interior	Dr. Mohammad Omar WARDAK
Minister of Justice	Prof. Mohammad ASGHAR
Minister of Finance	Enwer ZIYAIE
Minister of Commerce	Dr. Nour ALI
Minister of Public Works	Mohammad Hussain MESSA
Minister of Information & Culture	Dr. Mohammad ANAS
Minister of Communication	Eng. Mohammad Asim GRAN
Minister of Public Health	Miss Kubra NOURZAI
Minister of Mines & Industries	Eng. Abdul Samad SALIM
Minister of Agriculture & Irrigation	Mohammad Akbar REZA
Minister of Planning	Abdul Samad HAMED
Minister without Portfolio	Dr. Abdul Wahed SORABI
President of the Tribal Affairs Department	Sayed Masoud POHANYAR

PROGRAM OF THE VISIT OF HIS EXCELLENCY ROBERT S. McNAMARA
PRESIDENT OF THE WORLD BANK
TO AFGHANISTAN

Tuesday November 12th 1968.

- 12:20 Arrival at the Kabul International Airport and will be received by His Excellency Mohammed Enwar Ziyaie, Minister of Finance and other High Ranking Officials.
Departure from Kabul Airport for Chiel-Stoon Palace Annex.
- 13:30 Lunch in Suite
- 15:30 Courtesy Call on the First Deputy Prime Minister.
- 16:00 Audience with His Majesty the King at the Gulkhana Palace
- 16:30 Wreath Laying Ceremony at the Mausoleum of His Late Majesty Mohammad Nader Shah.

*Visit of AS
courteous action
country
parties
How will post-
inst. and loc.:*

- 17:00 Official Talks with Their Excellencies the Ministers of Finance, Agriculture, Public Works, Planning and the Heads of Afghan Air Authority, President of DaAfghanistan Bank; at the Ministry of Foreign Affairs.

*Agri BK
tech assist. +
credit contingent
would require
3-6 months
no mission
to bring report
report - 1/2
ask for Dept
to govt priority*

*What measures of loan activity
+ what do they show -
what funds available
development -
while appreciate diff. in raising loans
can't have 20:00
external debt reached. need -*

- 20:00 Dinner in Suite

Wednesday November 13th 1968.

- 9:00 Departure by Special Plane to Kunduz and will be received by the Governor of the Province and Deputy Minister of Agriculture.
Drive to Kunduz Stadium to see National Game of Buz Kashi.
Visit of the area proposed for Kunduz-Khanabad project, and vocational school site.
- 12:30 Luncheon by the Governor of Kunduz
- 15:00 Departure by Special Plane for Kabul.
- 16:00 Courtesy Call on His Excellency the Prime Minister.
- 16:30 Visit the Afghan Institute of Technology
- 20:00 Dinner given by the Prime Minister and Mrs. Etemadi at the Ministry of Foreign Affairs.

*Other names of
candidate for
rep.*

Thursday November 14th 1968.

- 8:30 Departure by car for Peshawar.
- 11:00 Visit the agricultural farm in Nangahar Valley Project
- Note: At 15:30 on Tuesday November 12th Mrs. McNamara will visit Afghan Womens Welfare Society.

Note Departure time from Chiel-Stoon Palace 15-20 minutes earlier than appointment time.

Handwritten notes on the right side of the page, including names like 'H. E. P. P.', 'M. P. P.', and other illegible scribbles.

COURTESY CALL ON KING MOHAMMAD ZAHIR

Mohammad Zahir became King of Afghanistan on November 8, 1933 following the assassination of his father, King Mohammad Nadir Shah, assuming the throne less than a month after his nineteenth birthday. King Zahir called upon his three uncles and his cousin, ex-Prime Minister Mohammad Daud (1953-63) to govern Afghanistan during the first thirty years of his reign. In March, 1963, however, he appointed the first commoner to head an Afghan government, and launched the country on what is commonly called Afghanistan's "experiment in democracy". The King granted a new Constitution in October 1964, which provides for a constitutional monarchy with a responsible executive, a bicameral parliament elected by universal suffrage and an independent judiciary. The country's first free elections were held in the fall of 1965.

Mohammad Zahir was born in October, 1914. He attended school in Kabul and then studied at the Lycee Janson de Saily Pasteur and College de Montpellier in France from 1924 to 1930.

In addition to travel throughout Europe and the Near East, the King has made state visits to Yugoslavia, the United Arab Republic, West Germany, the United States (in 1963), Communist China (1964), France (1965), the Soviet Union (1957, 1962, 1965 and 1968) and India and Pakistan (1967).

King Zahir is an avid and skillful hunter (he uses a rifle presented to him by President Eisenhower). He designs modern rug patterns as a hobby and also takes interest in experimental stock raising.

King Zahir reads and understands English but does not speak it with ease. He prefers French, which he speaks well.

To the best of our knowledge the King stays aloof from the working of the Government - at least formally - and is therefore not likely to comment in detail on the Bank Group's relationship with Afghanistan. If the opportunity offers itself, the Bank's intention to station a Resident Representative in Kabul could be mentioned.

Biographical papers on the Queen are attached in case of her presence during the courtesy call, or if arrangements are made for Mrs. McNamara to meet her.

AFGHANISTAN

Queen Homaira

The Queen is the eldest daughter of Prince Ahmad Shah, the King's maternal uncle. She has been married to the King since 1931, two years before he ascended the Throne.

Born in 1915, Queen Homaira was educated at the first modern school for girls established in Kabul. Tall and slender, she wears western dress. She played an active role in leading the Afghan women's movement to end the custom of wearing the veil. (The veil ceased to be compulsory for women in Afghanistan in 1959.)

Queen Homaira is interested in knitting, flower gardening and interior decorating. She likes to visit model homes, enjoys travel in the country, family picnics, American movies and fishing. She also works with the Women's Welfare Society. A frequent visitor to Europe, the Queen most recently visited West Germany (for medical treatment) in the summer of 1968. She accompanied the King on his state visit to the United States in 1963.

The queen has five sons, the youngest of whom was born in 1956, two daughters and several grandchildren. She speaks French in addition to her native Persian, but no English whatsoever.

November 4, 1968

II. GUIDELINES FOR DISCUSSION

These Guidelines are tentative, and may have to be modified depending on the meetings Messrs. Cargill and/or Melmoth will arrange with the Government prior to visit.

Subject matter is indicated by a green tab, biographical notes by a red tab.

Point to be raised by Mr. McNamara:

The Bank is considering the stationing of a representative in Kabul, in order to improve the mutual **understanding** of problems to be overcome and to find a more effective way of cooperation on projects. This could perhaps be mentioned to His Majesty, if the occasion arises, and could be discussed with the Prime **Minister** or any of the Ministers shown on the following ^{two} pages.

*name of person
in Ministry
here*

The following Cabinet Members are likely to discuss the IDA Lending Program and any, or all, of the projects under consideration:

Prime Minister
Noor Ahmad ETEMADI

Age: 48, speaks English and French. Most recently Minister of Foreign Affairs and First Deputy Prime Minister under the Maiwandwal Government. Began Government service in 1945, with the Foreign Ministry, and has served in the Embassies in London and Washington. On return to Kabul in 1954 became Director of Economic Affairs in the Foreign Ministry and rose to Director General rank (top career post in the Ministry). Appointed Secretary General of the Ministry of Foreign Affairs in 1963 and given Cabinet rank. Known as a strong nationalist, and conservative in his views. Able and industrious. Pro-western in attitudes, but always places Afghan interests first.

Second Deputy Prime Minister
Abdullah YAFTALI

Age: 54, speaks good English, fluent Japanese, some German and French. MA in Economics, Imperial University, Tokyo, 1943. Most recently Minister of Finance 1965-67; acting Minister of Planning 1963-65. U.S. Leader Grantee 1960-61. Government career began 1943; served variously as a Department Director, da Afghanistan Bank; President of Construction Bank; Departmental Head in Ministry of Finance; and, from 1949 to 1959 was President of Department of Government Monopolies. In 1959 moved to Ministry of Planning as Head of Research and Statistics Department. Moved up through various Departments to Deputy Minister in 1963. Described as intelligent, capable and hard-working - sometimes considered unimaginative. **Early** career reflected theoretical economic training, and belief in Government Planning and Control - as opposed to Free Enterprise System. Reportedly now recognizes need for more development of the private sector and fostering of commercial relations with Western nations. Has represented Afghanistan at numerous international conferences.

Minister of Finance [Governor (IBRD)]
Enwer ZIYAIE

Mr. Enwer Ziyaiie was appointed Minister of Finance of Afghanistan in November 1967 after having served in that Ministry since 1959, first as Deputy Minister for Administration and then as Deputy Minister of Finance. Prior to serving in the Ministry of Finance Mr. Ziyaiie was in the banking business and held the position of Director of the Staff Department of the

Bank-e-Melli, Afghanistan's largest private Bank, and that of Director of the Foreign Exchange Department of the da Afghanistan Bank, Afghanistan's central bank. Mr. Ziyaie has also been Vice President and Acting President of the Afghanistan Textile Company, the largest textile firm in the country.

Mr. Ziyaie was born in 1918 and is a member of the Mohammad Zai (extended Royal Family). He was educated in a German oriented technical high school in Kabul and is reported to speak English and German fluently. Directness and openness are reported as specific features of his approach.

Minister of Planning
Abdul Samad HAMED

Age: 39, reads English, speaks only fair. Fluent German, some French. Most recently Secretary General Red Crescent Society, 1967-68. Phd Political Science from Berne University, Switzerland. Minister of Planning for 30 days in October 1965. Acting Rector Kabul University, June 1964-October 1965. Early government service: entered Ministry of Education in 1960, rising to Chief of Department of Secondary Education 1962-63. Governor of Parwan Provind 1963-64. Member of Constitutional Revision Committee in 1963, member of Constitutional Advisory Commission 1964. Has served as Professor on the Law Faculty of Kabul University, and member of private law firm in 1964. Quiet personality, believed well versed in international affairs, pro-western and pro-American. Intelligent, dedicated and honest.

Biographical notes on other Cabinet Members with whom meetings may be arranged are given on top of the subjects they are likely to raise.

(a) IDA Lending Program

The Ministers concerned are likely to repeat their request for increased assistance, particularly for agriculture, but also for industry within the framework of Afghanistan's Third Five Year Plan (1967/68-1971/72). The Five Year lending program (see Section VI, Economic Situation, page) provides for \$12 million in two projects, \$8 million for the Kunduz Khanabad Irrigation Project (see (f) below),

and \$4 million for relending through the Agricultural and Cottage Industry Bank of Afghanistan, once reorganization had^s established it as a viable channel (see (e) below). A third project, the Hari Rud River Irrigation Project, has been suggested during the annual meeting by the Minister of Finance, but we doubt now whether there will be room for IDA financing since a \$8 million loan has been accepted from Yugoslavia, and a request for a similar amount is being considered by the Asian Development Bank (see (g) below). Our lending for industry depends on the establishment of a viable Industrial Development Bank. Chase Manhattan so far has taken the lead in sponsoring foreign participation in the proposed bank (see (b) below).

(b) IFC - Industrial Development Bank of Afghanistan

After two IFC missions had gone to Afghanistan in 1966 and after discussions with IFC regarding the establishment of an industrial development bank, the sponsors decided to go ahead with the Chase Manhattan Bank in the lead, but expressed hope that IFC would join in later. Legislation authorizing the creation of the Bank - which we understand is the main stumbling block - has not yet been approved by the Wolesi Jirgah (Lower House).

(c) Tourist Industry

The Government is presently assessing the country's potential for tourism and hopes for assistance by the Bank group. Specifically, the Minister of Finance enquired at the Annual Meeting whether the Bank Group would consider refinancing a medium term loan from the Midland Bank for the construction of the Kabul International^{continental}~~national~~ Hotel because the Corporation building the hotel was likely to run into financial difficulties.

Minister of Education
First Deputy Prime Minister
Ali Ahmad POPAL

Age: 52, speaks German and good English. German education; received Phd in Education from a German university. Most recently, Ambassador to Turkey (1966-68). Also served as Ambassador to the Federal Republic of Germany 1964-66; accredited also to Sweden, Switzerland and Denmark. A professional educator, he served as Minister of Education from 1959 to 1964. Also, Second Deputy Prime Minister 1963-64. Considered highly qualified for present post, and by Afghan standards one of the most progressive men in the country. Liberal thinker, favorably disposed to U.S. and Western nations, follows official Government line. Frequently moody and aloof on social occasions.

(d) Education Project - Credit 68-AF

The Association, when extending the Closing Date of the Credit by 3 years from March 31, 1968 to March 31, 1971, agreed with the Government on a timetable which provided that construction contracts for the school centers be placed not later than November 16. This timetable has so far been implemented, but international competitive bidding lead to only two offers, of which one was not responsive, and the other covered only part of the tender, and both were excessively over-priced. We have agreed that the contracts be retendered, and that bidding should be open to local companies accepted as qualified by the consultants.

Minister of Agriculture
Mohammad Akbar REZA

Age: 39, speaks excellent English. U.S. educated: Rensselaer Polytechnic Institute, Mass., Institute of Technology. Received MSc Degree, MIT 1954. Has served as Minister of Agriculture since 1965; Deputy Minister of Agriculture 1964-65. Entered Government service 1955, assigned to Helmand Valley Authority as Civil Engineer. 1961 became Department Head of Water and Soil Survey, Ministry of Agriculture, appointed President of this organization in 1963 when it was separated from the Ministry of Agriculture. Has attended and represented the Government of Afghanistan at numerous international conferences on water and water technology. Considered to be excellent Civil Engineer. His reputation was gained as author of first Afghan inventory of water resources and proposals for a water development plan. Ambitious, intelligent, capable and honest. Pro-western in outlook. Not afraid of assuming risks of trying new methods and ideas to accelerate progress in agricultural development.

(e) Agricultural Development Bank (ABA)

We prepared, at the Government's request, a draft application to UNDP for expert assistance in reorganizing the Bank, preliminary to considering IDA credits for agriculture. This was sent to Afghanistan on June 4, 1968, with a copy to the UNDP Resident Representative in Kabul. UNDP New York have told us that so far the application has not been submitted by Government. Nor is it clear whether ABA has obtained assistance (from Germany) for a general audit of the ABA, needed as part of the process of improving the accounting arrangements and of the reorganization of the institution. It is expected that the Government will argue that, while the Bank's recommendations for reorganization are accepted, interim changes would enable ABA to handle a lending program assisted by IDA. The last Bank mission to appraise ABA visited Afghanistan in May 1967. As soon as the Government has put in its application to UNDP it would be advisable to have the situation reviewed by a staff member (agricultural credit expert).

(f) Kunduz Khanabad Irrigation

Following a reconnaissance review financed by the Bank in 1965/66, Afghanistan requested UNDP to finance a feasibility study. FAO will be the Executing Agency. While some works have started (such as mapping by the Government), the Plan of Operation has not yet been signed. The contract with the consultants is being prepared. The study is expected to be completed towards the end of 1970. Before the UNDP feasibility study has been completed, it is unlikely that there would be a project ready for financing, but FAO has arranged to send a mission early in November in an attempt to identify a first phase project. On the

other hand, agricultural credit schemes benefiting farmers in the area could be contemplated independently through the Agricultural Development Bank.

(g) Hari Rud Irrigation

A river basin reconnaissance survey supplemented by two project area feasibility studies, sponsored by the UNDP/FAO, is expected to be completed by May 1969. While some reports on certain engineering aspects have been completed (dam sites and canals) the general report has not yet been finalized. An FAO mission is expected to visit Afghanistan shortly, and we have drawn their attention to the fact that the report should also cover the economic and financial, as well as institutional and organizational, aspects of the project.

We are taking steps to find out whether the offer of Yugoslav assistance **relates** to one of the projects covered in the feasibility studies or to parts of both. Afghanistan has also approached the Asian Development Bank with a request for a \$9 million credit for a project in this area. It is doubtful, therefore, whether a project suitable for IDA financing will emerge.

Minister of Public Works
Mohammad Hussain MESSA

Age: 44, fluent in English, some German. Appointed to present office 1967. U.S. educated: University of Houston, 1948-51, where he received BS degree in mining engineering, LUS 1951; University of Houston 1951-53 received Master of Science in Petroleum Engineering. First Ministerial appointment 1963, when he received portfolios of Communications, and Mines & Industries which he held until 1965. Early Government service: 1953-63 various positions in the Petroleum Exploration Department of the Ministry of Mines & Industries. Served as Minister of Interior for 30 days in October 1965. Appointed Governor of Balkh Province 1966-67. Frank and intelligent, pro-western in thinking and personal appearance, liberal.

(h) Highway Maintenance Project

The Government asked that negotiations for a \$5 million highway

maintenance credit - scheduled for last April - be deferred until it succeeded in obtaining a grant to cover the cost of consulting services needed for the project (estimated at \$1.2 million). After finding out informally that UNDP would be interested in a joint operation, we offered, and the Government accepted, our help in drafting an application to UNDP for a grant to cover the cost of consultants. A draft application was sent to the Government on October 24. If it is submitted to UNDP by the end of December 1968, and, after review, submitted to the Interagency Consultative Board and then accepted at its meeting in March 1969, we would be able to negotiate a credit of up to \$5 million in April or May of 1969, subject to IDA replenishment. ✓

III. OUTLINE OF PROJECTS TO BE VISITED

(a) Kunduz Khanabad Irrigation Project

The project is located in northeastern Afghanistan about 20 miles east of Kunduz on a motorable road to Khanabad (the irrigation center).

The first stage comprises 20,000 h. of which 14,000 h. are under irrigation installed by local people about 60 years ago. This work will be rehabilitated and modernized. Additional 6,000 h. of Government owned virgin land will be brought under irrigation. The irrigation works provide for a diversion dam and canals (on the Kunduz river). The project also includes all other farm inputs, e.g. extension services, processing, marketing, farm implements and credit.

Further projects of a similar nature suitable for Bank group financing could be developed in the Kunduz river basin.

(b) School Center at Kunduz

The Primary Teacher Training School, and the Mechanical, and Agricultural Schools will be built on a common site south of Kunduz, one mile from the city center. The site is about 300,000 m² of flat land, with direct access to the road from Kunduz to Baghlan. It is very good irrigated farm land suitable for the purpose, which the Government will acquire from private owners. About 87,000 m² will be the site for the school buildings, sport and recreation grounds, and circulation area; the remaining land will be used for the school farm.

The Teacher Training School is to prepare teachers for primary schools and to provide an educational center for in-service training for

*cost
benefit
advantage*

teachers within the area. The students will total 275, of whom 240 will be boarders.

The Agricultural School will give technical education in agriculture to prepare students to enter the Faculty of Kabul University or to be employed as middle-level agricultural technicians in the extension service, farmers' cooperatives or other agricultural services and organizations. It will have 250-students, all boarders. The school will include a farm for agricultural practice.

The Electro-Mechanical School will provide pre-service training of skilled workers in various trades to work mainly in factories and workshops. The training will include three major fields: electricity, auto mechanics and general mechanics. The school will also provide ad hoc in-service training courses for adults. It will include 350 students, 300 of whom will be boarders.

(c) Nangarhar Irrigation Project

The project is located near Jalalabad, and provides for the irrigation, when completed, of 33,450 ha of land with water drawn from the Kabul River through a diversion dam located at the Darunta Gorge which would also permit generation of 11 megawatts of power. On the irrigated land citrus trees, figs and olives will be grown, as well as cereals, sugar cane and oil seeds (sesam). So far experimental farms have been established to try out the optimum cropping pattern. Part of the project involves the reclaiming of desert land. The project is carried out with help from the Soviet Union. We have been told that it will be very expensive - a figure ✓ of \$3,000 per ha has been mentioned, but is not confirmed - on account of poor soil conditions. The Soviet Union is trucking good soil to the site.

IV. FACTS ON IBRD, IFC, IDA MEMBERSHIP
AND BANK GROUP OPERATIONS

(a) Membership

IBRD	Total capital subscription	\$30 million
	9% portion	\$ 2.7 million
	No release	
IDA	Total capital subscription	\$ 1.01 million
		\$909,000
	No release	
IFC	Total capital subscription	\$111,000

(b) Holding of Bank Bonds

\$1.20 million

(c) Settlement of Investment Disputes

Convention signed September 30, 1966,
not yet ratified.

(d) Bank Lending: None;

2 Technical Assistance Projects:

- (i) The Bank financed a reconnaissance survey of irrigation prospects in Kunduz-Khanabad basin, and assisted the Government in obtaining UNDP finance for a feasibility study of the selected area. The study is now getting under way and should be completed in 1970. (See II (f)).
- (ii) The Bank financed a Highway Maintenance Study to prepare a project for possible IDA lending. The study was completed in April 1968 - see II (h).

(e) IDA Credits: One;

<u>No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (\$ Mill.)</u>	<u>Oct. 31, 1968 Undisbursed</u>
68AF	1964	Kingdom of Afghanistan	Education	3.5	\$3.238 million

description changed

V. POLITICAL SITUATION

Afghanistan became a constitutional monarchy in 1923. A new Constitution was adopted in 1964 and the first elections were held in 1965. The present Government under Noor Ahmad Etemadi came into power in November 1967. The next elections are to take place in 1969. While the Constitution provides for political parties, none has been organized and no effective unified opposition has emerged.

While a good deal of power rests with the King particularly in respect of national defense, legislative control is vested in the Wolesi Jirgah, the lower house. The difficulty of obtaining parliamentary approval for financial measures combined with the inefficiency of the executive branch is presently producing difficulties in carrying out the development program. The build-up of a civil service is hampered by lack of qualified people and **unattractive** salaries.

Externally, Afghanistan pursues a policy of neutrality and nonalignment. It is not a member of any defense or mutual security pact. Relations with Iran are good and those with Pakistan improved after Afghanistan stopped pressing its claim to the border area, Pushtunistan.

Afghanistan has been receiving \$25-30 million a year of bilateral assistance from the U.S.S.R., the U.S., Germany (mainly in the form of technical assistance), and more recently, from the People's Republic of China.

VI. ECONOMIC PROBLEMS AND SITUATION

The Main Features

1. A predominantly agricultural, nomadic and largely illiterate population scattered over a rugged territory. About 10 percent urban.
2. An arid land but endowed with some agricultural resources in the northern and western river valleys and some mineral wealth (iron - not yet exploited, and natural gas).
3. A traditional social structure, vertical family system, ill-adapted for individual initiative.
4. A slowly emerging but very limited and closely held private industry sector. The requisite incentives, entrepreneurial skill, technical know-how, trained manpower and financial resources are deficient. Trade rather than industry has been favored by the wealthier elements.
5. The Government has been active in a number of processing and distributive activities such as textiles, sugar and petroleum products. The standard of the operation and control of government enterprises is very low.
6. An unusually acute scarcity of competent administrators and planners with an administrative system that relies heavily on foreign personnel.
7. A low domestic rate of saving and investment (less than 5 percent of GNP) ✓ even compared with other countries of comparable per capita income (\$80-\$100).
8. A low international reserve position and a high debt service liability, a large part of which is owed to the Soviet Union.
9. A free and fluctuating foreign exchange system (set up with the help of the IMF) that has been under pressure due to the great reliance of the public sector on the banking system and the poor export performance of the economy.

10. A relatively well developed infrastructure, underutilized and generally badly maintained.
11. Between 70 and 80 percent of total monetized investment has and will continue to be financed with foreign aid.
12. Since the export prices of Afghanistan's principal exports, namely cotton, wool and karakul, have been falling, and since the ratio of her external debt liabilities to gross foreign exchange earnings already exceeds 20 percent and all her natural gas exports to the Soviet Union are pre-empted for servicing her debt to that country, Afghanistan scarcely qualifies for additional borrowing on conventional terms.

Recent Economic Developments

The Bank sent an economic mission to Kabul in October 1966 to prepare a report that might assist the Government in the preparation of the Third Five-Year Plan which was to start in March 1967. The mission concluded that, despite the large amount of deficit financing, price instability, and weak balance of payments position which had characterized the early 1960's, Afghanistan would be in a moderately improved position at the beginning of the new Plan period. Stabilization measures and exchange reforms involving a fluctuating rate system had been adopted in 1965 and 1966. The mission recommended that additional revenue measures should be enacted and that the program would require an increase in foreign aid disbursements from about \$405 million during the Second Plan to about \$466 million during the Third Plan.

The Third Plan, however, has not gotten off to a propitious start, partly because the legislature refused to enact either the Plan law itself or supporting tax legislation and because the export prices of karakul,

wool and cotton have not been favorable. The country has done better on the fiscal than on the balance of payments side however, with a view to improving the latter. The export taxes formerly applied to cotton and wool have now been eliminated and replaced with export subsidies. Karakul will also receive an export subsidy. The loss of government revenue is to be made up by raising import valuations and increasing the government monopoly's prices on gasoline and diesel oil. These measures were taken in connection with the IMF Standby Arrangement with Afghanistan.

An important relationship in Afghanistan is that between the prices of wheat and cotton. To placate the urban population, the Government has tried to keep the price of wheat down but it was still more profitable to grow wheat rather than cotton. Therefore, a mandatory acreage allotment was imposed for the production of cotton. This has now been removed, and presumably the prices and production of the two crops will be subjected to market forces.

Despite the relative abundance of foreign assistance, the overall rate of investment and economic growth is low (perhaps about 3 percent per annum as compared with the growth of population of over 2 percent). The completion of major irrigation and road construction projects, and the inadequate Plan preparation that envisaged a rapid switchover of emphasis to the commodity producing sectors which has not occurred, have probably slowed down investment even further during the last year. The total development outlay in 1967/68 declined by about 12 percent, but there will be some increase in development expenditures in 1968/69. Together with the lack of project preparation and the tight fiscal situation, there has apparently been an appreciable decline in the inflow of foreign capital.

Future Investment Priorities

1. In the next five years, Afghanistan's investment resources should be

increasingly pre-empted for the commodity producing sectors. Investment in industrial activities must increase if the decline in public works expenditures during the Third Plan is to be compensated and a more vigorous overall growth rate is to be achieved. There is also a need for a substantial rise in the provision for technical training. With the lack of maintenance of the main infrastructural facilities, a larger portion of the development resources will have to be earmarked for maintenance.

2. In the field of agriculture, Afghanistan has very low yields. ✓
Preliminary investigations show a great potential for intensive ✓
agriculture. The major inputs needed are fertilizers, improved ✓
seeds, pesticides, **weed control** and improved cultural practices.
To realize the potential, it is essential to introduce these
improvements simultaneously. The future programs will have,
therefore, to remove the major constraints to the implementation
of such a program. In the next few years, a major limiting factor
is the extreme lack of quantity and quality of personnel engaged in
transmitting the results of research to the farmers. A method of
increasing the usefulness of the extension service without diluting
the quality through too rapid an expansion is to concentrate on those
regions that have the greatest potential for development.

Five-Year Projections

1. In the period 1962/63-1967/68, total investment (including non-monetized) approximated 13 percent of GNP, saving rate was about 4 percent and capital inflow around 9 percent. Present indications are that savings and investment rates which were ~~10~~¹⁰ percent and ~~2~~¹⁰ percent of the GNP respectively in 1967/68 would recover partially in the current year.

2. For the next five years it is assumed that investment (including nonmonetized) will be around 12 percent of GNP; savings about 3 percent and foreign capital inflow about 9 percent of GNP.
3. Further, the past experience and the overall performance of the economy suggest that 12 percent of investment should result in an annual rate of growth of around 3-3.5 percent. With GNP estimated at about \$5.3 billion for the period 1969/70-1973/74, total investment works out at \$635 million (compared to the Third Plan estimate of \$592 million) and savings at about \$160 million.

Capital Inflow and External Debt

1. Based on the foregoing analysis, capital inflow requirement would be around \$475 million, which is about the same level as envisaged in the Third Plan.
2. Afghanistan's foreign debt has been rising very rapidly in the recent past. By March 20, 1968, the total outstanding foreign debt amounted to \$696.7 million, of which \$436.9 million was disbursed. In 1967/68 the service on this debt was around 16 percent of the total export earnings. ✓
3. Despite the favorable outcome of debt negotiations with the Russians and very soft terms of aid, Afghanistan's debt burden will be onerous in the immediate future. If Afghanistan's external assistance requirements are met on the basis of 2 percent interest rate, 30 years' maturity and 10 years of grace period, if the flow of foreign aid is maintained at the level

indicated for the five-year projection, and if the total exports increase annually by about 5 percent, Afghanistan's debt-service ratio will exceed one-third of her export earnings by 1973/74, and if exports rise by about 7 percent a year, her debt-service ratio will be about 28 percent by 1973/74.

Conclusions on Afghanistan relevant for Bank/IDA

1. Policies

In order that the Bank/IDA programs should have an impact on the development of the economy commensurate with the external financing involved, ⁽¹⁾ the domestic saving and investment rates have to be stepped up and fiscal performance considerably improved. ✓

⁽²⁾ Larger price incentives should be provided for the promotion of main agricultural products. Improvement in the economic management of the country is also essential if the development of the commodity producing sectors is to gain a considerably greater momentum than in the past. Moreover, recurrence of the past inflationary pressures, with the accompanying need for a rapidly depreciating exchange rate, will have to be avoided. ✓

2. Priorities

The main priority areas for Bank/IDA operations are in ⁽¹⁾ agriculture, ⁽²⁾ road maintenance, ⁽³⁾ industrial finance and ⁽⁴⁾ education programs. //

Without foreign technical assistance, project preparation for Bank/IDA operations cannot be undertaken by the local experts. //

Hitherto the foregoing programs have received technical assistance from the Bank and other international agencies. This type of assistance will have to continue in future.

3. Lending Terms

Afghanistan's debt service is onerous and will become more burdensome in the immediate future. The country is not, therefore, able to support borrowings on conventional terms. So far the performance of the economy has made it difficult to mount a significant IDA lending program. IDA terms will have to apply to future borrowings of Afghanistan from the Bank/IDA sources.

Five-Year Lending Program

4. The IDA lending program (1969/73) in terms of commitments is as follows:

(In Millions of Dollars)

<u>Sectors</u>	<u>1968/ 1969</u>	<u>1969/ 1970</u>	<u>1970/ 1971</u>	<u>1971/ 1972</u>	<u>1972/ 1973</u>	<u>Total</u>
Transport	4-5			10		15
Irrigation		8				8
Agricultural Credit			4	<i>less late</i>		4
Industrial Development Bank				3	<i>less late</i>	3
Total	5	8	4	13		30
IDA debt repayment	0.01	0.01	0.02	0.02		0.06

5. IDA's credit outstanding to Afghanistan (\$3.5 million) is less than one-half of one percent of the total debt outstanding (\$697 million) as on March 20, 1968. The IDA lending program for the period 1968/69 - 1972/73 represents about 6 percent of projected gross capital inflow (official).

6. The estimate for future IDA operations displays some acceleration. This should be contingent upon improvement in fiscal performance. So far the principal constraint limiting the IDA operations has been the lack of reasonably prompt administrative action in regard to the preparation, negotiation, approval and execution of projects.
7. With limited domestic savings, local currency resources are an important constraint in Afghanistan's development effort. Local currency financing should, therefore, be considered for projects with a low foreign exchange component (e.g. agricultural credit programs).

Alternative Lending

8. At this stage of Afghanistan's economic development, the commodity producing sectors should have top priority for external financing. However, there are serious constraints to substantial investments in these sectors, including local financing and other aspects of absorptive capacity. Therefore, while the program proposed above is justified on the basis of need, its implementation on schedule is likely to be difficult. If institutional and other constraints interfere with lending to the commodity producing sectors, further investment for the purpose of achieving a better utilization, including maintenance, of infrastructural facilities may be justified. In view of the limited program proposed for Afghanistan and the uncertainties

of applying performance tests, it would not be feasible to adjust the level of lending to varying degrees of economic performance.

DRAFT
WKaupisch:vr
November 4, 1968

VII. POPULATION CONTROL PROGRAM

A "Family Guidance Association" (FGA) was established in July 1968 by a charter ratified by the King, and approved by the Council of Ministers. Though FGA is set up as a private organization, official initiative and support is very much in evidence. The President of FGA, as well as members of the National Committee for Family Guidance (an advisory body) are all lady members of the Royal family. The Secretary General of FGA is Mr. Abdullah Omar, the President of the Public Health Institute. FGA's charter speaks somewhat vaguely of "giving better guidance to families, to improve their health", but the Vice President of FGA, Dr. Ghaffar Aziz (Head of the Mother and Child Health Department, Ministry of Health) in a radio broadcast said openly that the program was to provide information to mothers on how to space children, and that the program was to start in Kabul. No adverse reaction was noted, and several members of parliament called to ask that their districts be included.

AID, which has sponsored information tours abroad for senior Health Ministry officials and a religious leader, intends to provide moderate support (about \$100,000 per year), presumably in keeping with absorptive capacity for the program during the next two years. Obviously a cautious approach is envisaged, and a full fledged program may take years to develop. Population growth, on the other hand, is estimated to be only 2% per year, but this is a doubtful figure in a country where population estimates vary between 12 and 15 million.

Background Notes

AFGHANISTAN



Population: 14 million
Capital: Kabul

A landlocked country about 260,000 square miles in area or approximately the size of Texas, Afghanistan lies between the Middle East, Soviet Central Asia, Sinkiang, and the subcontinent of India and Pakistan. Its location is strategic and has had a major influence on its history. Afghanistan's immediate neighbors are Iran, the U.S.S.R. (1,200-mile border), China (50-mile border), and Pakistan.

From southwest to northeast the country is divided by the towering ranges (up to 25,000 ft.) of the Hindu Kush and the Pamirs. Mountains and arid desert country are interspersed by small valleys made fertile by irrigation from snow-fed mountain streams. Its principal rivers drain to the southwest (Helmand) into a depression known as the Seistan on the Afghan-Iranian border, to the southeast (Kabul) to the Indus in Pakistan, and to the north into the Amu Darya (the Oxus River), which forms a large part of the northern boundary between Afghanistan and the Soviet Union.

The climate is typical of the higher regions of central Asia, cold in the winter and hot and dry in the summer. Another characteristic of the climate is the extreme range of temperature change within short periods, from season to season, and from place to place. For example, in summer in Kabul (6,000 ft.) the temperature may be 50° F. at sunrise and by noon reach 100°. Kabul's mean temperature in January is 32°. In the plains of Jalalabad (1,800 ft.) summer temperatures can reach 115°. Rainfall is scanty—nowhere more than 15 inches annually. The rainy season extends from October to April, but much of the precipitation is winter snow and spring rains.

THE PEOPLE

Afghanistan's present racially mixed population is a reflection of its location astride trade and invasion routes that lead from the Middle East into central Asia and the Indian subcontinent. The bulk of the population are Pushtun (Pathan), Uzbek, Turkoman, and Hazara, with small groups of other races represented. The dominant group is the Pushtun, which comprises about half of the total population. Persian and Pushtu are the principal languages spoken, though Turki is extensively used in the north.

Afghanistan is a Moslem country, and the Sunni sect of Islam is predominant. Religion pervades all aspects of life; religious doctrine and codes

provide the principal means of controlling conduct and settling legal disputes. Except for a rather small urban population in the principal cities, most of the population is divided into clan and tribal groups and follows centuries-old customs and religious practices in the conduct of its affairs.

The principal cities south of the Hindu Kush are the capital, Kabul, with a population of 450,000; Jalalabad, which is on the road from the Khyber Pass to Kabul, with 12,000 inhabitants; and Kandahar, 300 miles southwest of the capital, with 100,000. North of the Hindu Kush are Herat, lying close to the Iranian border in the west and having a population of 100,000 and Mazar-i-Sharif, 50,000.

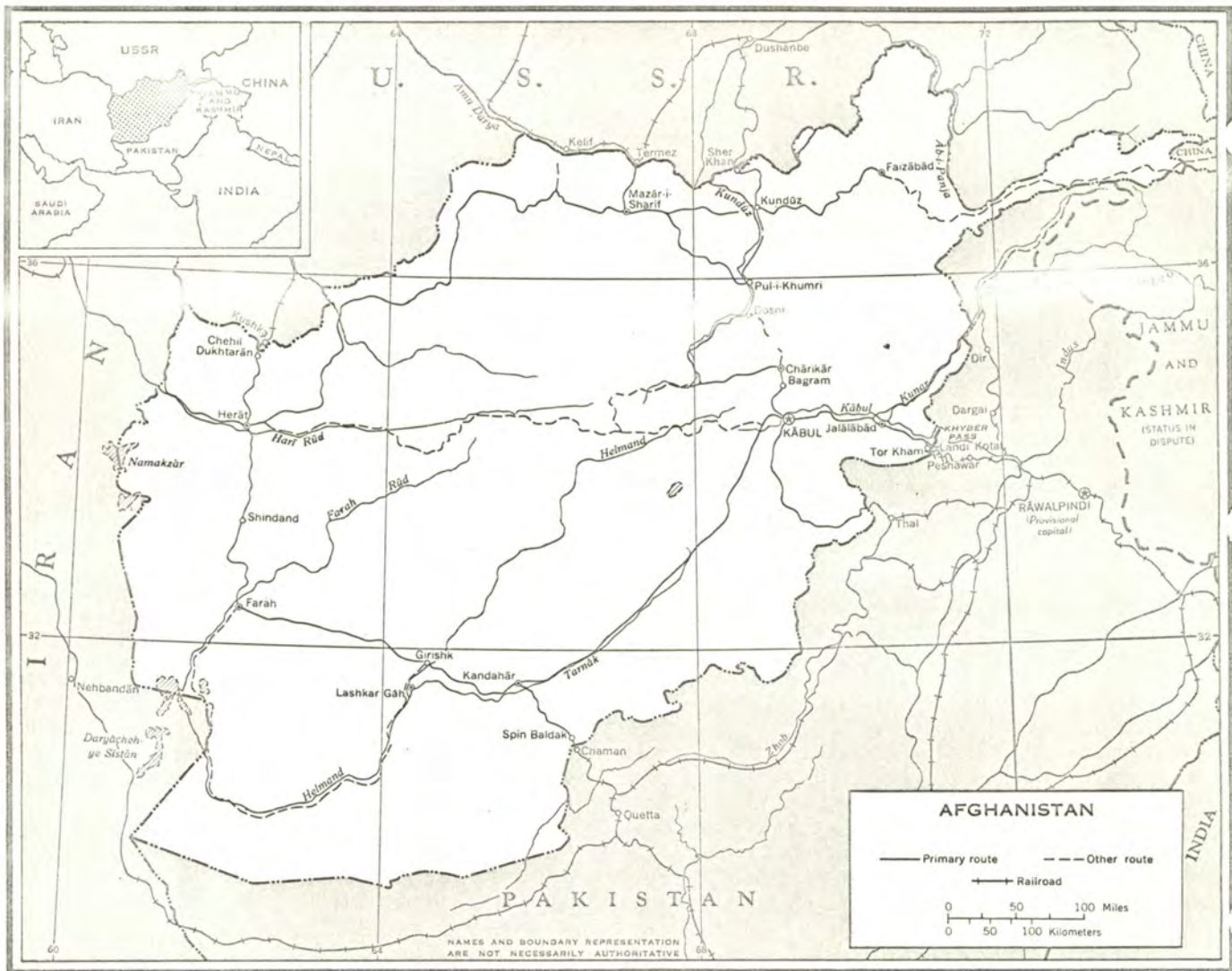
HISTORY

Afghanistan, often called the crossroads of central Asia, has had a turbulent history and suffered many invasions. In 328 B.C., Alexander the Great entered present-day Afghanistan and, after crossing the Helmand River and the Hindu Kush, captured ancient Bactria (present-day Balkh). His rule was followed by domination by the White Huns and the Turks. In 652 A.D., Afghanistan fell to the conquering Arabs, who brought with them a new religion, Islam.

Arab rule gave way to Persian rule, which continued until 998 when Mahmud of Ghazni, of Turkish extraction, assumed control. Mahmud established Ghazni as a great capital and cultural center, from which base he repeatedly invaded India to spread the Moslem faith. Mahmud's dynasty was overcome some years after his death, and Afghanistan was ruled by various princes until the invasion of Ghengis Khan in the early 13th century which resulted in the destruction of Herat, Ghazni, and Balkh.

Late in the 14th century Afghanistan came under the control of Tamerlane and became part of his huge Asian empire. In the late 15th and early 16th century Afghanistan came under the rule of Babur, who founded the Mogul dynasty in India and who is buried in Kabul, his favorite city.

Afghanistan as an independent kingdom was founded by Ahmad Shah Durrani, who was the first to be crowned King of Afghanistan in 1747. Ever since then the throne has been occupied by a member of the Durrani tribe, though since 1818 by a different clan. Ahmad Shah consolidated various chieftainships, petty principalities, and provinces into one country, Afghanistan, which then included within its borders parts of the Punjab, Baluchistan, and other sections of northwestern India.



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European Influence

During the 19th century, as British power in India expanded and Russia moved into central Asia in its push to the East, the history of Afghanistan was decisively influenced for the first time by European countries. British efforts to secure a stronger position in the Punjab and northwest India to counter Russian influence in both Persia and central Asia led to the first Anglo-Afghan war of 1838-42. The British won the war and set their candidate upon the throne only to find that they could not effectively control the country. Their forced withdrawal from Kabul in 1842 was disastrous, and virtually all of the approximately 16,000 troops and camp followers were slaughtered by the Afghans. Retaliatory military action followed and an Afghan leader friendly to Great Britain was put on the throne.

Russian advances in central Asia and Afghan dealings with Russia led to the second Anglo-Afghan war of 1878-80, which brought Amir Abdur Rahman Khan to the throne. This ruler agreed to British control of Afghan foreign affairs in return for which he received an annual subsidy. In 1893 the Amir recognized the Durand Line as the boundary between Afghanistan and British India, and it remains as the present boundary between Afghanistan and Pakistan. Afghanistan's borders with Russia also were established along their present lines during the Amir's reign. Under the Amir's leadership the royal family's control of the country was strengthened and the hold of the central government over the heterogeneous population and outlying areas tightened.

World War I

During World War I Afghanistan remained neutral despite German intrigue to have the Afghans foment trouble along the borders of India. Meanwhile, nationalism became a developing force in the country. On Amanullah Khan's accession to the throne in 1919 following the assassination of his father, Habibullah, Afghanistan embarked upon the third Anglo-Afghan war apparently in the mistaken belief that conditions were ripe for revolt in India. The war lasted only a few months; the Afghans won some early victories but sought peace after the British brought air power into the fray. Afghanistan obtained freedom to conduct its external affairs in the peace treaty signed in August of that year and marks this event in celebrations every August. Afghanistan's national day is on May 27.

Reform and Reaction

After the war King Amanullah set about making changes in his country. Moving from its traditional isolation, Afghanistan entered into diplomatic relations with the principal nations of the world. In 1927 the King made an extensive tour of Europe, an experience which fired him with a desire to modernize his country. His attempt to abolish the veil for women, however, thoroughly alienated his

conservative countrymen, and this circumstance, together with the depletion of the national treasury and the deterioration of his army, made him easy prey for a brigand, Bacha-i-Saqao, who captured Kabul and declared himself King early in 1929. Nadir Khan, the present King's father, defeated Bacha-i-Saqao with Pushtun tribal support on October 10, 1929, and was declared King at the insistence of the tribal chiefs and elders.

Recent Developments

Nadir Khan was a member of the Yahya Khel clan of the Mohammadzai Durrani tribe. This family has ruled Afghanistan since 1929 and continues to exercise an influential role in determining the policies of the government. Nadir Khan's brothers, who had assisted him in defeating Bacha-i-Saqao, became prominent members of his government. He adopted a cautious policy of modernization, education, and economic development. His son and the present King, Mohammad Zahir Shah, succeeded to the throne on November 8, 1953, after the assassination of Nadir Khan by a fanatic follower of the previous dynasty. Nadir Khan's brothers were Prime Ministers through 1952, and the King's cousins, Sardar Mohammad Daud and Sardar Mohammad Naim, were respectively Prime Minister and Deputy Prime Minister and Foreign Minister from 1953 until March 1963.

In March 1963 a new government headed by a commoner, Dr. Mohammad Yusuf, Minister of Mines and Industries, assumed office. Though the King remained the focal point of power and continued to exercise leadership and influence, this was the first Afghan Cabinet in history which contained no member of the royal family. The Yusuf Cabinet was entrusted by the King to introduce a program of political and social reform. This program was carried forward successfully, and in 1964 Afghanistan adopted a new and more liberal constitution, designed to give legal sanction to the reform program.

GOVERNMENT

Government in Afghanistan is based upon the constitution of 1964 which preserves the paramount power of the King, but otherwise removes the Royal Family from the conduct of government, increases the power of the Parliament vis-a-vis the executive, and provides for a reorganization of the judicial system by 1967. Parliament consists of two houses. The King appoints one-third of the 84 members of the Meshrano Jirga (House of Elders), one-third is elected directly by the people (adult suffrage, secret ballot), and the remainder is to be elected by Provincial Councils. The 215 members of the Wolesi Jirga (House of the People) are elected directly by the people.

The government, either house of Parliament, or in some cases the Supreme Court can introduce bills. The cabinet must obtain a vote of confidence from the Wolesi Jirga, and can be dismissed by a

vote of no confidence. Both the cabinet and the Wolesi Jirga have a normal term of 4 years. The constitution provides for a number of other reforms including the permission to form political parties and greater freedom of the press.

The constitution also provides that the Sunni doctrine of Islam shall be the state religion. The principles of Islam provide the basis for court decisions in the absence of specific legislation, although the scope of such legislation is expected to increase with the creation of a new judicial system and adoption of enabling legislation designed to carry out the provisions of the 1964 constitution.

A new Parliament was elected by secret ballot in August-September, 1965. Parliament gave its vote of confidence October 25, 1965, to a new cabinet headed by Prime Minister Yusuf. This cabinet resigned a few days later following the death of students in clashes with police and troops, and Mohammed Hashem Maiwandwal became Prime Minister on November 2, 1965.

ECONOMY

Afghanistan is primarily an agricultural and pastoral country where 90 percent of the population live on the land. Of its total area of about 160 million acres, only 15 to 20 percent is arable. Only half of this amount is under cultivation, yet no pressure on the land is apparent. In good crop years the country is nearly self-sufficient in food grains, but in recent years P.L. 480 wheat has been supplied to meet the deficit. Annual per capita gross national product (GNP) is about \$90. This figure, however, only partially reflects the situation, since about half of the economy is non-monetized.

Mineral resources consist of coal, chrome, oil, lead, zinc, copper, iron, sulphur, and salt. Coal and salt have been exploited to a limited extent, but the other resources are relatively untouched. Exploration for oil in northern Afghanistan has been conducted since 1952. Some oil and major deposits of natural gas have been found north of the Hindu Kush. Development of these mineral resources may change the present economic picture significantly.

The national budget for the year 1964-65 exclusive of most foreign aid was about Afg. 4.75 billion or approximately \$63 million at the rate of 75 Afghanis to the dollar. In June 1965 the Afghan Government, worried over the growing budget deficit and the threat of inflation, signed a "standby" agreement with the International Monetary Fund (IMF) permitting the Afghan Government to draw additional foreign exchange from the IMF provided the Government introduced and maintained selected budget and financial controls.

Trade

In 1964-65 exports totaled about \$70 million, imports \$140 million. The trade deficit was financed largely by foreign aid. Afghanistan's principal exports are agricultural products. Karakul (Persian

lamb skins) has in the past been exported to the United States and Europe to the extent of some \$12 million annually, and fruits and nuts are exported to the Indian subcontinent. Other exports are cotton, the production of which has increased greatly over the past few years, wool, hides, and skins. Afghanistan's principal imports are cloth, sugar, petroleum products, tea, motor vehicles, machinery, and other finished goods. Wool, hides, skins, and cotton are bartered with the U.S.S.R. for petroleum products, cloth, and sugar. For several years a small exchange of goods with Iran has increased considerably. Iran is supplying some petroleum products to Afghanistan and—as have Pakistan and the U.S.S.R.—has accorded facilities for the transit of Afghan imports and exports through Iran.

Transportation and Communication

Communications facilities in the country are poor but are being developed rapidly. There are no railways or navigable rivers in Afghanistan. The primary road system is a circular roadway connecting the principal cities in the country. Until recently most roads were unpaved, and bridges frequently were washed out. Many routes are still little more than caravan trails. Road maintenance has been inadequate. To improve communications the United States and the Soviet Union have been engaged in extensive roadbuilding programs. U.S. road projects completed include the Kabul-Peshawar and the Kandahar-Spin Baldak roads, both facilitating communication with Pakistan, and the Kabul-Kandahar road. Work is expected to begin soon on a new road from Herat to the Iranian border and on the extension of the Pakistan railway into Afghanistan at Spin Baldak. The Soviets have built a road and tunnel through the Salang Pass in the Hindu Kush and a road from the Soviet-Afghan border north of Herat to Kandahar; they are working on other roads in northern Afghanistan.

There are more than 8,000 commercial motor vehicles in Afghanistan. Truck transportation to the railheads in Pakistan is an important part of the transportation system, and trucks are also used to move goods into Afghanistan from the trade route through Iran.

Several years ago Afghan airports had little in the way of technical facilities, but with U.S. financial and technical assistance, a modern international airport has been completed at Kandahar and domestic airports at Herat, Kunduz, and Jalalabad have been modernized. The Soviet Union constructed a modern airport at Kabul. Ariana (the Afghan national airline), in which Pan American World Airways has a minority stock interest (49 percent), is operating regional routes between Afghanistan and India, Pakistan, Iran, the U.S.S.R. (Tashkent), and the Near East. International service is also provided by Soviet, Indian, Pakistan, and Iranian airlines.

Economic Development

Afghanistan embarked on an economic development program in the 1930's. Banks were established and paper money was successfully circulated. A university was established, primary-, secondary-, and technical-school facilities were expanded, and students were sent abroad for higher education. Illiteracy and the lack of technical training remain serious problems. Industrial expansion has been limited owing to lack of financing and other basic economic requirements.

In 1956 the government formulated a 5-year economic development plan which only partially met its targets and had to be revised downward. Total expenditures during this plan were Afg. 11 billion.

A much expanded second 5-year plan began in March 1962. Total expenditures of Afg. 33.5 billion are envisaged. Almost 60 percent will represent foreign exchange costs covered by foreign aid. Both plans were designed to provide a beginning for orderly and balanced industrial and agricultural development. Substantial progress has been made in such fields as textile and cement production. Agricultural output and export-processing industries promise to expand further under the joint U.S.-Afghan financed project of developing the water power and agricultural resources in the Helmand Valley in southwestern Afghanistan. A third 5-year plan, covering 1967-72, is now being prepared.

In addition to U.S. and Soviet aid, Afghanistan has received economic assistance from West Germany—which has committed roughly \$60 million for the second plan—and technical assistance from the United Nations and certain of its specialized agencies such as the World Health Organization, the International Civil Aviation Organization, and the United Nations Educational, Scientific and Cultural Organization.

U.S. ECONOMIC ASSISTANCE

Since the foreign aid program began in 1950, the United States has extended to Afghanistan \$350 million in loans, grants, and agricultural commodities to develop transportation facilities, raise agricultural production, expand the educational system, stimulate industry and mining, and improve administration.

In the 1950's the United States concentrated on helping Afghanistan build its economic infrastructure—the roads, dams, and power plants which constitute the foundation stones of a modern economy. More than 500 miles of paved highway were built, linking the country's major cities and commercial centers and facilitating trade with Pakistan and Iran. To develop an airline capable of serving all sections of a country then divided by mountains and poor roads and not easily accessible from the outside, the United States constructed five airports, trained pilots and technicians, and extended a loan for the purchase of planes and equipment. A short rail spur is planned from the Pakistan National Railway across the Pak-Afghan border to Spin Baldak east of Kandahar and providing direct access to the Port

of Karachi. The Afghan Government obtained an Export-Import Bank Loan to open new lands to irrigation in the Helmand Valley. From 1946 to 1959, Morrison-Knudsen, an American construction firm, built a network of dams, reservoirs, and canals throughout the Valley. The United States, through its technical assistance program, is continuing to improve this irrigation system and develop the land brought under water control.

U.S. aid efforts have shifted in recent years away from infrastructure projects to technical assistance programs designed to help the Afghan people develop the skills needed for building a modern society. The aim is to furnish "know-how" rather than physical structures. Similarly the emphasis on dollar grants for capital projects has given way to an emphasis on encouraging the Afghan Government to finance these U.S. assisted development efforts with long-term loans.

Afghanistan's need for trained specialists is great. The United States has provided teams of professors from four U.S. universities to help the University of Kabul (situated since 1964 on a new campus built with AID assistance) provide functions in education, and agriculture. By 1970 the University will graduate about 320 engineers, secondary school teachers, and agriculturists yearly. The United States has also provided experts to train teachers and develop curricula for the primary school system. Five primary teacher-training schools have been established. In agriculture the United States is working with the Afghans on a program to eliminate Afghanistan's wheat deficit by raising agricultural production 30 percent in 10 years. Research stations and demonstration farms have been established to develop improved seeds and provide farmers with the means for increasing per acre yields.

The approximately \$350 million in aid extended to Afghanistan since our aid program began in 1950 includes \$111 million in agricultural commodities, under PL 480, \$72 million in loans, and \$166 million in direct grants. The grants have been made in amounts of \$87.5 million for transportation, \$24.3 million for education, \$18.3 million for the Helmand Valley, \$6.5 million for agriculture, \$6.1 million for public administration, \$3.5 million for industry and mining, and \$19.7 million for other projects and support of U.S. AID personnel in Afghanistan.

Other U.S. agencies assisting Afghanistan include the Asia Foundation, which sponsors several American advisors to Afghan ministries, and the Peace Corps. The Peace Corps began its Afghanistan program in 1962 with 9 volunteers and now has over 200 volunteers in the country.

FOREIGN RELATIONS

Afghanistan has traditionally pursued a policy of neutrality in its foreign relations. Within the past century it has served as a buffer state between Czarist and later Soviet Russia and the British Empire (now the independent states of South Asia). The country's geographic position underscores its continuing strategic importance.

Afghanistan's foreign policy emphasizes peace and the maintenance of friendly relations with all nations. In the United Nations Afghanistan has generally followed the voting pattern of the nonaligned nations of Africa and Asia. Although Afghanistan has accepted very substantial loans and other assistance from the Soviet bloc, it also looks to the Western nations for assistance in meeting the aspirations of its people for a higher standard of living as well as for support in maintaining its independence.

Relations With the United States

At present there are no outstanding problems in Afghan-U.S. relations, which have been generally cordial since the establishment of diplomatic relations in 1936. Since the state visit to the United States by the King and Queen—the first in history—in September 1963, these warm relations have been marked by increased warmth and understanding. Prime Minister Maiwandwal has accepted President Johnson's invitation to visit the United States toward the end of 1966. The U.S. policy of assisting developing countries has been an important factor in maintaining and improving U.S.-Afghan relations.

Afghan-Pakistan Relations

Afghanistan's relations with the free world have been complicated by its longstanding controversy with Pakistan over the "Pushtunistan" issue. The basis for this controversy was laid with the establishment of the Durand Line (1893) following the second Anglo-Afghan war. In effect the line divided the territory inhabited by the Pushtun tribes: part went to Afghanistan and part to British India. The partition of British India in 1947 and the transfer of political authority over the Pushtuns in the old Northwest Frontier Province to the successor Government of Pakistan precipitated the current issue. The Afghans vigorously protested the inclusion of Pushtun areas within the borders of Pakistan without giving the Pushtuns the opportunity to choose for either self-determination or inclusion in Afghanistan. From the Afghan viewpoint it is an important international problem.

As a successor power to the British, Pakistan regards the Durand Line as a legally established international border confirmed by successive Afghan rulers, and takes the position that Afghan claims to an interest in the status of the people in the area constitute interference in its internal affairs. The United States recognizes the Durand Line as the international boundary between the two countries.

During the past 19 years this problem has led to incidents along the common frontier, and at times closure of the border between the two countries has resulted in extensive dislocation of normal trade patterns. The most recent crisis in Pakistan-Afghanistan affairs lasted from September 1961 until June 1963 when diplomatic, trade, transit, and consular relations between the two countries were suspended.

Mediation attempts by the United States and Iran helped to resolve the impasse and restore normal relations. Afghan interest in "Pushtunistan" continues, but the new government is adhering to its stated position of pursuing this interest through peaceful means. Relations between Afghanistan and Pakistan remained friendly during the Indo-Pakistan conflict of August-September 1965.

Afghan-Soviet Relations

Afghanistan had long regarded its northern neighbor with suspicion and fear, but relations became more cordial following the establishment of the Soviet Government. The Soviet Union was among the first countries to establish diplomatic relations with Afghanistan when the latter emerged from the third Anglo-Afghan war with full sovereignty. An Afghan-Soviet nonaggression treaty was concluded in 1921. This treaty also provided for Afghan transit rights through the Soviet Union. During this period the Soviets provided some financial and technical assistance to Afghanistan, including training for a fledgling Afghan air force.

Afghanistan again became suspicious of Soviet intentions with the destruction by the Soviets of the independent Moslem principalities, Khiva and Bokhara, north of the Oxus River (or Amu Darya). This action was contrary to assurances given by the Soviets as well as provisions of the 1921 treaty which recognized Afghan interest in the continuing independence of these areas. From the early 1930's until the beginning of massive Soviet aid in 1954, Afghan-Soviet relations could best be described as formally correct and without any particular warmth. This situation was probably attributable to both Afghan caution and Soviet preoccupation initially with internal affairs and subsequently with World War II and its aftermath.

More recently the Soviet Union has undertaken a major economic assistance program in Afghanistan. Trade between the two countries has become increasingly important as a result of transit agreements, barter arrangements, and loans. Since 1954 Afghanistan has received loans and grants from the Soviet bloc totaling approximately \$600 million, as well as substantial Soviet military assistance for equipping and training the Afghan armed forces. The U.S.S.R. first extended a \$100 million credit for general economic development, mainly in the fields of power, irrigation, and transportation. In addition the Soviet Union has furnished Afghanistan with \$5.8 million for silos and for road paving in Kabul, \$15 million for petroleum exploration in northern Afghanistan, and \$80 million for a road from the Soviet border through Herat to Kandahar. In 1962 the U.S.S.R. signed an economic aid agreement with Afghanistan in the amount of approximately \$212 million for the implementation of the Afghan second 5-year plan which commenced in March 1962. Other large Soviet projects have been in roadbuilding (especially the Salang road and tunnel through the Hindu Kush), hydroelectric power (Naghlu project on the Kabul River), and irrigation and land reclamation (Jalalabad area).

A significant shift in Afghanistan's trade has occurred in the past decade until nearly half is with the U.S.S.R. While repayment of Soviet loans is an important factor in this development, the proximity of markets in the U.S.S.R. and recurring problems with Pakistan have also contributed to this shift.

Czechoslovakia, Poland, Bulgaria, and Communist China maintain missions in Afghanistan. Czechoslovakia has granted technical and military aid to Afghanistan, and a number of Afghan students have been studying in Czechoslovakia. Afghan students are also studying in Poland. Communist China extended a \$28 million credit to Afghanistan in 1965.

Afghan-Iranian Relations

Afghanistan has maintained cordial relations with Iran, though there has been disagreement over the distribution of the water from the Helmand River which flows into Iran from Afghanistan. Negotiations have been held intermittently but have failed to settle the issue. A transit agreement of February 1, 1962, in addition to giving Afghanistan an alternate route to the sea, indicated the interest of both countries in creating a better political climate. Iran has increased its sale of petroleum products to Afghanistan, and Iran Air opened the first jet service to Kabul in August 1965.

PRINCIPAL GOVERNMENT OFFICIALS

Prime Minister—Mohammad Hashem Maiwandwal
President of the Senate—Abdul Hadi Dawi
President of the National Assembly—Dr. Abdul Zahir
Minister of Court—Ali Mohammad
First Deputy Prime Minister and Minister of Foreign Affairs—Nur Ahmad Etemadi
Minister of Interior—Ahmadullah Khan
Minister of National Defense—General Khan Mohammad Khan
Minister of Finance—Abdul Karim Hakimi
Minister of Education—Dr. Mohammad Osman Anwari
Minister of Commerce—Dr. Nur Ali
Minister of Planning—Dr. Abdul Hakim Ziayee
Minister of Press and Culture—Mohammad Osman Sidqi
Minister of Public Works—Mohammed Hussein Messa
Minister of Agriculture—Mir Mohammad Akbar Reza

Minister of Health—Miss Kubra Nurzai
Minister of Communications—vacant
Minister of Mines and Industries—Abdul Samad Saleem
Minister of Justice—Dr. Mohammad Haider
President, Department of Tribal Affairs—Mohammad Khalid Roashan

PRINCIPAL U.S. OFFICIALS

Ambassador—Robert G. Neumann
Deputy Chief of Mission—Archer K. Blood
Director, U.S. AID Mission—Russell S. McClure
(There is also an AID office in Kandahar)
Air Attaché—Lt. Col. Ernest O. Ewan
Army Attaché—Col. Rolland W. Hamelin
Public Affairs Officer—Robert L. White
Peace Corps Representative—Walter P. Blass

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