

CHAPTER 8: IMPLEMENTATION

8.1 This report has reviewed a number of areas of economic activity and development programmes related to the opium economy and has made a significant number of recommendations that could have direct or indirect impacts in shifting incentives toward the licit economy. This final chapter looks at how to implement these recommendations. Plainly, not all the recommendations can be implemented at one time, and some have more potential for impact than others. The chapter, therefore, first sets out criteria for prioritizing proposals (Section 8.1). Six priority sets of interventions are then discussed in detail (Section 8.2). Subsequent sections look at how to add further value to key ongoing programmes (Section 8.3), and at studies and other work that could be done to make ready further high-impact activities for implementation at a later stage (Section 8.4). Key cross-cutting policy and institutional issues for further dialogue are summarized in section 8.5. A final section (Section 8.6) provides a brief overview of expected impacts on the opium economy.

8.1 CRITERIA FOR PRIORITIZATION

8.2 *To prioritize and phase recommendations for intervention, a set of criteria has been developed:*

- **Impact of the intervention:** Would it have a broadly spread and important impact on the drivers of the opium economy? Would it benefit key target populations, notably poor farmers, the landless and women?
- **Feasibility:** What would the intervention cost, and what would be the cost-benefit relationship if that could be assessed?
- **Implementability:** Could the intervention be implemented in the Afghanistan situation? How would moral hazard issues of corruption etc. be handled?
- **Sustainability:** Could the impacts be sustained without continuous interventions?
- **Political economy:** What would be the political support and opposition to the measure? Who would gain and who would lose? Would there be political or governance benefits from the measure? Or risks and costs? Would the measure contribute to state building, institutional development, capacity building?
- **Multiplier effects:** What would be the knock-on or associated economic impacts of the measure? Would it contribute to growth? Would there be positive or negative multiplier effects on the economy? How would the impacts of loss of opium revenue, labour markets, access to land and credit etc. be compensated?
- **Results measurement:** Could the results be targeted and measured; how would it be possible to establish links between the measure and facts on the ground?

8.2 SIX PRIORITY INTERVENTION SETS

8.3 *Based on the analysis in this report, and matched against the criteria set out above, six priority intervention sets have been identified:* (i) an integrated programme combining support to farming, governance and integrated rural development; (ii) increasing agricultural land under irrigation; (iii) improving returns to livestock; (iv) rural enterprise development; (v) local

procurement; and (vi) an integrated production and market development programme for suitable crops such as cotton, initially targeted at Helmand province. Actions in these areas could have a considerable impact in improving incentives to engage in the licit economy, and in the longer term would contribute to the shrinking of opium production. This section explains the priority of each of the interventions as judged against the criteria, and summarizes the recommendations of the report on how to implement the intervention and what supporting institutional and policy measures need to be put in place.

8.2.1 Intervention 1: An “Integrated Programme” for Rural Development and Governance

8.4 High impact on livelihoods, and hence on the opium economy, would be obtained by linking comprehensive support to rural development (reorganizing production systems around market-driven supply chain models, private rural enterprise development, rural infrastructure, access to social services) with governance building. Many programmes already exist to deliver both rural development investments and governance building at the village level, but they are often characterized by lack of coordination and continuity, a supply-driven character, and fragmentation of objectives. The result at the community level has tended to be a lack of critical mass of impact to improve livelihoods.

8.5 There are, however, three successful approaches which have potential, if combined, to generate the necessary critical mass of impact on rural livelihoods, and hence to create strong incentives away from the opium economy:

- The emergence of CDCs and clusters of CDCs as *development partners* that can serve as entry points for further development initiatives (see 6.3.4), and also building social cohesion and adopting participatory planning.
- The success of a number of NGO facilitating partners in offering *integrated development services* to communities. These services have ranged from capacity building and technical guidance through facilitation of other development initiatives, to financing of local investments. Box 18 describes the experience of one DFID-financed programme in Badakhshan. The virtue of integrated services is two-fold. First, they have the capability to address the broad range of rural people’s actual requirements (e.g. to create labour opportunities outside of the harvest season), rather than simply offering “top down” whatever product line the project is specialized in (e.g. orchard crops). Second, they can offer support along the entire value chain – e.g. from choice of crop to adding extra value to marketed produce, rather than focussing on only one dimension, e.g. just improved seeds (see 6.3.2, 3.3.1).
- The growing effectiveness of the *National Priority Programmes* in delivering sectoral investments both in rural infrastructure (NRAP, WatSan), in agriculture (EHLA), and in social services (EQUIP, Basic Package of Health Services).

8.6 On the basis of this experience, an “integrated programme” for rural development and governance is proposed – essentially expanding and scaling up nationwide models like those proven by AKDN in Badakhshan and by GTZ, DACAAR and Afghanaid in the Programme for Alternative Livelihoods (PAL) in the east, fully factoring in the differences in local circumstances.

8.7 The innovation proposed is to scale up and complete existing initiatives so that rural communities would have access to a critical mass of support that would allow them to reorganize production systems along market-driven lines and to develop the physical and

institutional infrastructure needed to support this shift to commercial activity. The characteristics of this integrated programme would include:

- Design and implementation would be Afghan-led, within national policy and budgets, and financing could – in principle – be channelled through the ARTF.
- Delivery by full service field-based implementing partners, typically NGOs. The greatest synergies would be attained if the same partner can implement the entire package in an area.
- Scaling up from existing operations in order to capitalize on field presence and experience, and targeting poorer and more vulnerable areas.
- Support to farmer organizations established around commodities or activities and to structuring of supply chains for higher-value production, linked to private sector downstream processing and marketing.
- Strengthening of the productive asset base, especially through linkages to the rural finance system and to enterprise development programmes (see Intervention 4 below).
- Links to or integration with the programmes for strengthening CDCs (see 6.3 above).
- Linkages to other national priority programmes in order to achieve synergy.

8.8 The expected *impact* on the opium economy would be felt even within a few years (as in the case discussed in Box 18) in areas that are in close proximity to the provincial centre. Impact would be high in the medium to longer term once the programme achieves greater coverage in less accessible areas. The approach would provide a critical mass of development support, capable of shifting incentives toward the licit economy, and providing needed institutional support. The development of governance structures would strengthen social cohesion, which is linked to security and – in time – to a “pull” away from poppy. In a province like Badakhshan, reductions in the more accessible parts of the districts of Kishim, Faizabad and Baharak could bring down overall levels of opium poppy cultivation in the province by around 50% over a five to eight year period. In Helmand, this approach, combined with an improved security environment (see 7.7 above), could be expected to make a considerable dent in levels of opium poppy cultivation in the central districts where as much as 50% (around 51,000 ha in 2007) of the province’s total opium poppy crop is currently grown.

8.9 As demonstrated by a number of ongoing programmes, this approach is *feasible and cost effective*, even under the difficult field conditions of Afghanistan. Activities can be pursued even in more difficult security situations, albeit at a lower levels of intensity. Community demand is strong, and the association of the agricultural programmes with CDCs would provide further credibility to these local structures. *Political economy* constraints include the ambiguity over the role of CDCs (see 6.4.2) and the continuing issues of inter-agency collaboration, particularly between MRRD and MAIL (see 3.4.3). The articulation of a broad range of rural development programmes through the CDC mechanism should enhance the *sustainability* of both the development and governance programmes.

8.10 The implementation, policy and institutional measures needed for the success of this approach have been discussed earlier. In summary, the *implementation measures* required are:

- Recent evaluations have demonstrated the economic and counter-narcotics impacts of ongoing integrated programmes. These evaluations should be consolidated during

2008, so that they can be “read across”, the most successful models identified, and a programme prepared for scaling up and replication nationwide (but tailored to local conditions in different parts of the country), with an initial three year investment phase during 2009-2011 (3.3.1).

- Government and donors should continue their support to NSP and CDCs and to DDAs (6.4.2).
- Implementing partners should be identified that are capable of delivering broad-based agricultural packages and support to CDCs and DDAs. Partners willing to adopt this approach in contested territory such as the southern provinces should be sought (6.3.2).
- The need for continuation and scaling up of DDAs and NABDP should be assessed and an appropriate programme prepared (6.3.3).
- Levels of aid to provinces should be determined by equity, poverty reduction concerns and economic opportunity. Aid should, however, be targeted within provinces as far as possible to address the drivers of the opium economy and to counterbalance its advantages (7.5).
- Security considerations should be factored in the programme design (see Box 19 below).

**Box 17: An Integrated Programme for Governance and Rural Development
Successfully Contributes to Reduction of Poppy Cultivation in Badakhshan**

Between November 2004 and December 2006, the Aga Khan Foundation (AKF) in partnership with AfghanAid and Concern implemented the *Integrated Rural Rehabilitation to Improve Livelihoods and Curb Poppy Production (IRRILP)* to support sustainable economic and social development by introducing and strengthening alternative livelihood options in Badakhshan. The IRRILP has six **outputs**, the indicators for which were substantially achieved during the life of the project:

- Agricultural inputs and technical support to improve **agricultural production**: This largest component of the programme achieved targets in improving livestock and crop productivity, and in crop diversification.
- Improve **productive infrastructure**: Bridges, schools and irrigation projects were constructed.
- **Social capital and governance** strengthened through community mobilization & training: The target of 600 operational and effective village institutions, including over 400 CDCs and 156 women’s committees was achieved. Clusters of CDCs and common interest groups were assisted in addressing a range of community level issues and negotiating with district and provincial government.
- **Rural enterprises** created: The project supported business development services and promotion of micro-enterprises through training, and facilitation of access to micro-credit through self help groups.
- Increased **local capacity to implement development** in Badakhshan: Substantial capacity building work, training and joint research projects were undertaken with provincial government staff and line ministries. The Badakhshan Development Forum (BDF) developed into a key coordinating body in the province, assisting the government and communities in the provincial planning process and strengthening self-implementation of relevant programmes and projects.
- **Access to social protection** is increased and services are improved: A number of successful initiatives in opium demand reduction, non-formal education and child peer groups were initiated.

Outcomes included:

- Food aid dependency decreased from 34% of the population in 2001 to zero in 2006.
- All households in the target districts benefit from viable licit income generation activities.
- More than 600 effective village institutions are operational and have the capacity for continuing engagement in village development.

According to the evaluation, **IRRILP contributed substantively toward the overall reduction in opium poppy cultivation in its target areas.** The evaluation recommended continued investment in the programme in order to sustain the governance and economic development impacts and lock in the change in the incentive structure away from opium.

Source: Aga Khan Foundation, Afghanistan and Concern (2007).

8.11 **Indicative incremental costs**, based on experience under ongoing programmes and assuming a programme commencing in 2009 to roll out to cover half of NSP-supported villages (i.e. about 10,000 villages) by 2011, are estimated at \$30 million in 2009, rising to \$90 million in 2011. The indicative total cost for an initial three year programme 2009-2011 is estimated at \$180 million.

Box 18: Suggestions for Dealing with Insecurity

- Work through decentralized planning and programming mechanisms, to ensure that the local administration and local people are aware and on board.
- Select only villages that are willing to sign a cooperation agreement and to give a community security guarantee.
- Maximize local ownership and community engagement through working with community institutions (CDCs and others), local contracting, labour-intensive works, etc.
- Remove all “foreign badging” – or perhaps even government badging where this is essential for working in the most insecure areas, and be thoroughly Afghan in the field.
- Use local implementing partners and locally recruited staff, preferably from the communities themselves, including local facilitators, “barefoot engineers”, and technical monitors.
- Give priority to relevance: the project has to be at the top of the local community’s priorities, and preferably one that gives rural people a stake in stability, security and good governance.
- Use decentralized and participatory monitoring and evaluation approaches.

Source: Section 7.6

8.12 The **supporting policy and institutional measures** required are:

- The role of CDCs and DDAs should be strengthened progressively over time (and in line with the development of their capacity) to become focal points for development dialogue, and for some elements of local service delivery and governance at the village level (6.4.2).
- Government should strengthen provincial and local planning processes, in line with the constitutionally-mandated unitary state and unified national budget (6.4.2).
- All partners should align agricultural programmes within the new strategic framework provided by MAIL under Afghan government leadership, and give priority to joint programming at the central and provincial levels and to transparency, information exchange and knowledge management (3.4.2).

- Agricultural sector policy development, planning and programme oversight should be strengthened, and measures put in place to ensure that MAIL works closely and programmes jointly with MRRD (3.4.3).
- Structured linkages should be developed to existing and planned rural development and enterprise development programmes.
- Support and capacity building should be provided to MAIL (3.4.3).
- Studies leading to specific sub-sector strategies and investment plans should be conducted for export crop development, for oil crops for import substitution, and for livestock (3.4.3).
- MAIL should implement its new policy to contract for service delivery through farmer organizations, NGOs, CDCs etc. (3.4.1).

Intervention 2: Expanding Agricultural Land Under Irrigation 8.2.2

8.13 As discussed in Chapter 3 (3.3.3), irrigation is key to restoring livelihoods and promoting the essential transition to higher-value cropping. Current rehabilitation programmes cover less than half of rehabilitation needs and do not provide for important investments such as watershed management, new water storage, modern irrigation technology, or advice on improved water management and irrigated cropping. Accelerated and scaled-up investment in irrigation would have a **high impact** against the drivers of the opium economy when combined with a more conducive security environment. Moreover, investments in irrigation would provide broadly spread benefits with the typically important **multiplier effects** of irrigated agriculture throughout the rural economy. Currently the relatively good performance of irrigation programmes under Afghan leadership and execution demonstrates the **feasibility** and strong community **demand** throughout the country. Irrigation investments have a typical life of 25-50 years, so **sustainability** is likely, provided that effective and sustainable O&M arrangements are put in place. There is also a positive impact on **governance**, as irrigation management builds social capital and gives farmers a fixed asset stake in governance, security and market development.

8.14 The implementation, policy and institutional measures needed for this approach have been discussed in the report (3.3.3). In summary, the **implementation measures** required are:

- ***An irrigation and agricultural water management sector review should be carried out.***
- ***A phased ten-year programme for increased investment should be prepared and financed,*** covering irrigation rehabilitation and expansion, watershed management, new storage, modern irrigation, and development and dissemination of improved water management and irrigated cropping packages.

8.15 **Indicative investment costs** for a phased ten year programme are roughly estimated to be on the order of \$1.2 billion, of which \$125 million would be for completion in the short to medium term (2008-2012) of the rehabilitation of existing traditional irrigation on up to 500,000 ha; \$250 million for physical and institutional modernization in the medium term (2010-2015) of existing large scale irrigation schemes on up to 250,000 ha; and up to \$800 million in the medium to long term (2012-2018) for the development of new diversion structures, hydropower and large scale irrigation on up to 150,000 ha (for example, the proposed Kokcha Scheme, see 3.3.3 above).

8.16 *Supporting measures* required are essentially institutional. First, as discussed above (3.3.3), the Ministry of Energy and Water (MEW) and the Ministry of Agriculture (MAIL) need to work out a framework for cooperation with each other and with NGOs and other outreach organizations. Second, the *proposed sector review* should assess issues of riparian rights and transboundary water sharing. In the case of new irrigation schemes on transboundary waterways, constructive dialogue with neighboring riparian countries will need to be initiated.

Intervention 3: Improving Returns to Livestock 8.2.3.

8.17 As discussed in Chapter 3, investment in livestock is a first-class entry point to reduce the dependency of the poor on opium (3.3.4). The *impact* is considerable: improving returns to livestock offers a direct route to addressing the needs of the most vulnerable and reducing their incentives to participate in the opium economy, particularly in more inaccessible areas where the alternatives to opium poppy are typically limited. In a province like Nangarhar these are the areas where opium poppy has persisted even during periods in which the crop was effectively banned across the rest of the province. Scaled up support is *feasible*: there are national programmes underway to strengthen veterinary services and to support small-scale initiatives in dairy and poultry, with considerable possibilities for scaling up. Other areas of the livestock economy also could be supported – particularly sheep fattening and the development of downstream high value-added activities. *Community engagement* is strong. Increased support to these programmes could reach the poorest and most vulnerable communities, as well as the poor and women throughout the country.

8.18 The implementation, policy and institutional measures needed for this approach have been discussed in the report (3.3.4). In summary, the *implementation measures* required are:

- *A review of the initiatives in dairy and poultry to date should be conducted* to delineate entry points most relevant to the opium economy. There should be particular focus on the poorest, on women, and on extension to areas least served by development programmes and with susceptibility to opium.
- Mechanisms to further enhance livestock value-added should be studied, particularly *sheep fattening, cashmere fibre development, and skin garments*.
- *A programme for increased investment should be prepared and financed.*

8.19 *Indicative investment costs* for the period 2009-2012 are roughly estimated at \$120 million, based on the costing of the ongoing EHLP, including \$60 million for dairy (extension of the cooperative dairy model to a further ten regions) and \$60 million for poultry (based on extension of the semi-commercial and household models implemented under EHLP to ten more provinces. Costs for the livestock value-added activities would need to be estimated through an outline feasibility study.

8.20 The *supporting policy and institutional measures* required are to ensure that the transition to privatized but universally accessible veterinary services is carried through, and that services are available to the poorest. In addition, the reform and institutional development measures for MAIL and MRRD proposed earlier (8.2.1) would strengthen implementation of the livestock programme.

Intervention 4: Rural Enterprise Development 8.2.4.

8.21 As discussed in Chapter 4 (4.3.1), the development of rural enterprise and employment has been relatively neglected within the rather overcrowded and tumultuous urban enterprise support arena. Government is developing an innovative Afghanistan Rural Enterprise

Development Programme (AREDP). Although the programme is still at the earliest stages of design and development and there are many open questions, it is clear that this could be a very **high impact** programme. Substantial counter-narcotics impacts would be obtained by an aggressive programme that promoted *enterprise specifically for rural areas*, as that is where the opium farmers and labourers currently are located (see 4.5.2). It is also in rural areas that lower costs per job or enterprise created would be found, and where much of the growth potential lies, particularly associated with agro-processing. If AREDP achieves even part of its overly ambitious target of creating 2.1 million permanent jobs, it would provide a massive alternative labour market to opium poppy. The multiplier effect of such an intervention would further increase wage labour opportunities and raise the opportunity cost of allocating labour to opium poppy cultivation.

8.22 **Feasibility** remains to be demonstrated, but the proposed articulation of AREDP through the CDCs and its linkages to other NPPs should give it the ability to reach a large population. There are important design issues that need to be resolved however. **Political economy** issues mainly relate to “turf”: already nine other ministries are slated for involvement. However, if these issues can be resolved, the programme is likely to make a substantial contribution to growth.

8.23 **Indicative costs** for AREDP have been estimated by MRRD at a net \$550 million over a ten-year period. The net financing requirement for an initial three-year phase during 2009-2011 is estimated at \$200 million. Critical next steps in the development of this important proposal are discussed in Section 4.3.1 above, including:

- As the implementation measures needed for this approach are still being worked out, the government should work intensively to develop the proposal, with close and constructive support from donors.
- All relevant government and national agencies should be involved. In particular, MAIL should share the driving seat with MRRD.
- Government should make a particular effort to bring in the local private sector, USAID and MISFA, the leader in the micro-finance field, as key partners.
- Particular emphasis should be given to building local capacity in business development.
- Attention needs to be given to improving the business environment and aligning and harmonizing approaches of business support programmes (see 4.4 above). Some of the present report’s recommendations are summarized in Box 20.

Box 19: Improving the Business Environment and Business Support Programmes

The report makes many recommendations that might be useful in improving the business environment and the impact of business support programmes:

- Access by Afghan trucks to neighbouring countries should be negotiated as part of transit and trade agreements (3.4.1).
- Incentives and subsidies implicit in current business development services need to be streamlined and transparent, and the services should be built up to be locally run (4.4.1).
- Pooled financing should be considered to ensure consistency and coherence of matching grants for investment (4.4.1).
- Scale up Industrial Parks in response to business demand (4.4.2).
- Attention should be paid to setting and supporting export standards (4.4.2).
- Government and partners should work together to further strengthen the Customs Service (4.4.2).
- A study of trade policy with an import substitution and counter-narcotics lens should be

conducted (4.4.2).

- Support should be provided to the development of representative business and civil society organizations that have a stake in fighting corruption and in better security (4.4.3).

Intervention 5: Local Procurement 8.2.5.

8.24 As discussed in Chapter 4 (4.3.1), a quick action that could have high impact would be a massive increase in local procurement by the foreign community. In terms of *impacts*, the bulk of such procurement would be high-value agricultural produce, and much of it could be produced in opium-vulnerable areas (e.g. the proposed US purchases in Nangarhar). Benefits would to a large extent accrue to rural populations engaged in or emerging from the opium economy. Increasing the local labour content of construction contracts would absorb workers who otherwise might engage in the opium economy, in addition to having a significant poverty reduction impact. In addition to the economic benefits, the dividend in terms of trust and “hearts and minds” would also be considerable. *Feasibility* has been demonstrated by the US lead, and other sizeable opportunities are evident. Overtly, the *political economy* equation is highly positive: government and donors have universally subscribed to this approach in the Afghanistan Compact. Far greater reluctance persists at managerial and operational levels, and this needs to be overcome by political directive. The *multiplier effects* within the economy of up to \$1 billion of extra local purchases annually would be extraordinary.

8.25 The *direct cost implications* of this initiative would be minimal, largely continued support to the Peace Dividend Trust and the administrative costs of hiring extra local procurement staff. There should in the short to medium term be important cost savings as local produce and labour replace expensive imports.

8.26 The *implementation measures* required are:

- *All governments supporting the Afghanistan Compact should make firm commitments to sharply increase local procurement in 2008, with a target to reach, say, 50% by 2009*, and instruct relevant agencies to prepare feasibility studies and make institutional preparations (e.g. for hiring local purchasing and inspection staff) in order to meet this target.
- *Operations of the Peace Dividend Trust should be scaled up and fully funded* (4.3.1.2 and Box 8).

Intervention 6: An Integrated Production and Market Development 8.2.6. Programme for Suitable Crops Such as Cotton, Initially Targeted at Helmand

8.27 Afghanistan has in the past demonstrated comparative advantage in cotton production. Revival of the cotton sector could have high *impact* as it is relatively high-value, and moreover cotton grows well in Helmand where opium is widely grown, and the standard business model to a large extent parallels that of opium. However, the *feasibility* of major investments in the cotton sector is not clear at present. Attempts to date to revive the cotton industry have encountered many problems (see 3.1.6, 3.2.3). Other crops may make sense, and their prospects would also need to be assessed. Major new investment in plant together with a high level of support to the business, at least initially, would be required to rebuild the cotton economy on a profitable and sustainable basis. There are viable commercial models for small-holder cotton development practised in many countries, in particular the attractive nucleus factory and out-grower contract farming model, which reduces farmer risk by providing inputs, advice and a guaranteed market and price, and reduces business risk by binding out-growers to a contract relationship with a single industrial buyer. Other industrial crops such as oil seeds may also be

economically viable (3.1.6), and their prospects would need to be assessed. There are evidently *political economy* issues, both at the local level (see 3.2.3) and at the central level, where government policy has remained committed so far to a statist approach. Recent changes in MAIL do, however, give grounds for some optimism that a shift toward a market-oriented private sector-led approach for cotton is possible.

8.28 Despite these uncertain prospects, industrial crops present considerable possibilities and the business model is prima facie highly attractive. It is therefore recommended that an *immediate review and pre-feasibility study* for an integrated production and market development programme for suitable crops such as cotton in Helmand should be carried out. Some of the issues that such a study would need to address in relation to cotton are outlined in Box 21. The *indicative budget* for the study is \$500,000, but subsequent investment requirements could be expected to be orders of magnitude greater.

Box 20: Issues for a Cotton Production and Export Development Programme in Helmand

While appearing quite promising, not least in light of the precedent of successful cotton development in the Helmand Valley in the 1960s and 1970s, an integrated cotton production and development program raises a number of issues, particularly in the present context of Afghanistan. These issues, which would need to be analysed and addressed at the feasibility stage, include *inter alia* the following:

- The study would need to ascertain that cotton indeed can and will crowd out opium, since both are annual crops and double-cropping is possible in large parts of Helmand.
- The longer-term suitability and environmental impacts of cotton would need to be assessed, based on experience elsewhere and in Helmand – questions relate to, for example, the use of cotton in some of the increasingly saline soils in Helmand, and the risks and effects of pesticide use.
- The integration of different elements of the value chain will be crucial. For example, support to cotton producers without requisite ginning and marketing arrangements would not be effective or sustainable.
- In particular, since the ginned cotton would be exported, development of export markets and associated standards and quality levels (including technical support to producers in this regard) will be essential.
- Costs will need to be estimated on a comprehensive basis for the entire program, with full development of the value chain.
- The economic and financial returns to the range of investments required – possibly including start-up assistance, matching investment grants, cost sharing, short to medium term support, market development, etc. – would need to be carefully evaluated in order to ascertain whether this is indeed a high priority for funding.
- The question of who benefits, i.e. among the four categories of the rural population discussed earlier (see Section 2.3 above), and the possible impacts of such a programme on land tenure, sharecropping, wage rates for rural labour, etc., would need to be addressed.
- In addition to general insecurity issues, programme-specific security considerations must be taken into account with appropriate mitigation measures, since this kind of initiative would be visible and may be targeted by anti-government elements or drug industry interests if it appears to be achieving success.
- Related, the political economy and governance dimension is important, including how to deal with the existing state-owned cotton ginnery in Helmand and the associated implicit “taxation” of cotton growers seen in the recent past.
- Effective and sustained implementation of such an integrated programme will be vital, and the study would need to look closely at various options; strong private sector leadership able to support the full value chain would appear to be essential,

- Sources of financing, and commitment of providers over the medium term, would need to be clarified.
- The exit strategy for phasing out major public financial support would need to be clear and transparent – withdrawing support in the absence of a well-planned and well-understood exit strategy could even result in reversion to opium; strong export demand, supported by adequate quality standards for the cotton produced and exported, will be an important ingredient in this regard.

8.3 ADDING VALUE TO KEY ONGOING NATIONAL PRIORITY PROGRAMMES

8.29 The six intervention sets discussed above (8.2) have been identified as being of high priority, not only because of their likely *high impact* but also because of their *additionality*: they provide a good framework for injecting substantial extra financing, with good prospects for having a significant impact on the opium economy over time. There are, however, many other programmes that could also contribute in a major way to the desired shifting of incentives away from opium. These programmes have been discussed in this report, and a number of recommendations have been made for scaling up and improvements in order to enhance impacts, including on the opium economy. This section briefly summarizes the recommendations of the report regarding *four ongoing National Priority Programmes*: NRAP and rural access; NSP and community development; MISFA and rural finance; and WatSan and rural drinking water supply. The thrust of the recommendations is to enhance the impact, particularly the opium-relevant impact, of these programmes. The subsequent section (8.4) then looks at *three additional programmes* where studies and other work could be done to prepare further high-impact actions for implementation at a later stage.

NRAP and Rural Access 8.3.1

8.30 The report discusses the strong linkages between rural access and the counter-narcotics agenda (5.1.4) and recommends further investments in rural roads, with substantial additional financing suggested for NRAP, subject to policy and institutional changes and to improvements in programme design and implementation. Funds could also be shifted from other, less government-led and possibly less effective, rural road programs to NRAP. Key recommendations for improvement (5.4.1) include:

- Develop a rural roads policy and a mechanism for prioritized investment planning.
- Strengthen coordination amongst providers and with beneficiaries.
- Define institutional responsibilities at all levels, with lead from government ministries.
- Develop a capacity building programme.
- Prepare new, low-cost standards for rural road construction.
- Design a strategy for road maintenance and progressively implement it over time.
- Adopt low-cost and labour-intensive technologies.
- Set up a simple M&E system to collect economic data.

8.31 To *enhance counter narcotics aspects*, priority should be given to poor localities, areas where market linkages can be strengthened, and areas where opium poppy cultivation is extensive or its return is considered likely (subject to security remaining manageable). Linking

isolated districts to administrative centres should also be a priority. Implementation should prioritize community buy-in, emphasize labour-intensive construction, and provide for locally managed and executed maintenance (5.5.2).

8.32 Current plans are for a new phase of NRAP with a seven-year budget of \$400 million. The financing of the first three years is assured from identified sources, largely a new IDA Credit of \$112 million expected to be available in January 2008. Subject to absorptive capacity (about which there is some question due to local contractor limitations), an *indicative additional budget* of \$300 million could be made available for the period 2011-2014.

NSP and Community Development 8.3.2

8.33 Throughout this report it has been argued that development of good governance, including palpable government presence in delivering services to the people, is integral to the growth, poverty reduction and counter-narcotics agenda (*passim*, but especially 2.3 and 6.1). CDCs as successful vehicles for delivery of development investments in line with village priorities can play a role in moving the counter-narcotics agenda forward, and continuing capacity building and financial support to them should be seen in this light (6.5). The report, therefore, recommends further funding and strengthening CDCs under the NSP. Key recommendations, which are complementary to those above regarding the proposed integrated programme (8.2.1), include:

- Provide *further financing* to continue the NSP programme to complete roll out of CDCs countrywide and to finance block grants (albeit at much lower levels of resourcing) for consolidation and sustaining of CDCs (6.3.1).
- Strengthen linkages to a *stable development partner*, allocating adequate resources so that facilitating partners can support CDCs and DDAs (6.3.2).
- Assess the need for continuation and scaling up of DDAs and NABDP (6.3.3).
- *Mainstream counter narcotics considerations* in district and provincial planning (6.3.3).
- Strengthen over time the role of *CDCs as focal points for local development service provision and governance in limited areas*, with roles extending beyond the block grants (6.3.4, 6.4.2).

8.34 Phase II of NSP (2007-9) is currently rolling out with a budget of \$120 million. This level of financing imposes constraints on both outreach and block grants for investment. An *indicative supplementary budget* of \$100 million for the period 2008-9 is suggested.

MISFA and Rural Finance 8.3.3

8.35 The role of opium credit in locking rural people into the business is discussed in the report (4.2.2), and increasing outreach of rural financial services is therefore a key step to changing the incentive structure. In addition, provision of financial services is vital to rural economic growth, and would support the priority intervention sets proposed above (8.2). Report recommendations regarding rural finance (4.3.3) include: (i) to complete the process of *maturity of MFIs*; (ii) to develop *new areas of finance* for rural areas, particularly innovative solutions in financing agriculture and rural enterprise; and (iii) to *increase rural outreach* significantly.

WatSan and Safe Water in Rural Areas 8.3.4

8.36 Although direct links between rural water supply and opium are hard to establish, the provision of safe water forms an essential component in improving rural livelihoods, and the report proposes that the ongoing programme be improved and scaled up (5.3.2). Measures proposed are:

- A sustainable low cost *strategy for O&M* should be developed (5.3.2).
- A *water resources assessment* should be carried out to determine the effect of the drought on existing schemes and on the potential for future schemes (5.3.2).
- A study should be carried out to *revise and strengthen the WatSan programme planning and management* and to resolve the current implementation problems (5.4.2).

8.4 PREPARING FURTHER HIGH-IMPACT ACTIVITIES FOR LATER IMPLEMENTATION

8.37 A number of activities reviewed in the report are high-potential areas for engagement, but in addition to supporting ongoing initiatives (with improvements in them as necessary), there is a need to carry out further studies or preparatory work before the scope for further interventions and major scaling up of these activities can be clarified. The activities concerned are in the areas of: (i) promoting high-value agriculture and labour-intensive processing; (ii) developing rural employment and adding value to labour; and (iii) rural electrification. This section summarizes the recommendations of the report in these areas.

Promoting High-value Agriculture and Labour-intensive Processing 8.4.1

8.38 The report analyzes the considerable growth potential for high-value agriculture and labour-intensive agro-processing, which will be key elements in improving incentives in the licit economy (3.1.4-6). There are many ongoing interventions, and current initiatives have stimulated some increased investment and activity in the private sector. More private sector involvement will be key to moving production systems towards higher value commodities (as proposed under Interventions 1 and 4). However, although further support is without doubt needed and pilot initiatives should continue to be pursued vigorously, an important step should be stocktaking and evaluation, in order to prepare strategies for scaling up activities. The proposed AREDP (see 8.2.4 above) would be a good vehicle to undertake the needed studies and strategy work, especially as AREDP could subsequently support required investments. Specific recommendations of the report in this areas include the following (see Section 3.3.2):

- *Supporting high-value horticulture production:* Further support to development of high-value horticulture should be provided, with a focus on opium-vulnerable provinces that are currently under-served (including Helmand). MAIL and MRRD need to work together, and AREDP would provide an opportunity to do so. The innovative and successful DFID-supported programme to identify and develop new high-value crops should be continued and strengthened.
- *Supporting the fruits and nuts processing and export sector:* Further investment and capacity building should be provided to the fruit and nut sector all along the value chain, but actions need to be taken on the policy and institutional constraints before further major investments.

- ***The value chain approach:*** The experience with value chain approaches linking producers, processors and export markets should be evaluated in preparation for AREDP.
- ***Market development and agricultural export promotion:*** The scope for further export promotion is considerable. The AREDP programme could be used to develop a plan for agricultural export development, especially in the fruits and nuts sector, to identify investment opportunities and to help build strong commodity export associations.
- ***Industrial crops and agro-processing:*** Sector studies of prospects for oil seed development should be conducted. These should evaluate financial profitability and economic comparative advantage and environmental impacts and risks, and should recommend what policies (start-up assistance, matching grants, cost sharing, short to medium term support, appropriate tariff protection, market development, etc.) might be needed to help establish and sustain agro-industrial production. Investments can then be pursued under the umbrella of AREDP.
- ***Contract growing:*** A detailed study of experience and opportunities in this priority area should be carried out, and conclusions implemented with investment support under AREDP.

Rural Employment and Adding Value to Labour 8.4.2

8.39 Rural employment and adding value to labour are key mechanisms for providing alternatives to opium (4.1.2). However, opportunities for improving the employment prospects of the largely unskilled rural labour force and for adding value to migrant labour have not been exploited (4.2). Recommendations of the report in this area include the following:

- **Skills development:** A demand-driven vocational training programme needs to be developed and financed (4.3.2).
- **Flexible migration:** A study should be carried out to identify entry points to higher value and more humane migration, and to develop a road-map for this (4.3.2.b).

Rural Electrification 8.4.3

8.40 Rural electrification can make an important contribution to rural well-being and to rural productivity, but little has been done systematically in this area so far (5.1.3). The report recommends that a **national policy framework** be developed, covering ways to facilitate private investment, subsidy policy, and institutional options for larger projects. The report also recommends that a **central agency for facilitating rural electricity access** be established. One important task would be a **programme of research and information on best practices**. It is also recommended that **extra financing** be provided for rural electricity development (5.4.3).

8.5 KEY CROSS-CUTTING POLICY AND INSTITUTIONAL ISSUES

8.41 Above the programme level there are a number of issues that constrain development across the board in Afghanistan and where a political-level consensus may need to be developed or – where it already exists – translated into action. These issues therefore require persistent dialogue amongst all partners, leading to consensus and, most importantly, change. The main cross-cutting issues for further dialogue discussed in the report include:

- **The imperative of increasing Afghan ownership and leadership:** All programmes should be within an Afghan government strategy, and must be accountable to the government. Improvements in the quality of Afghan leadership in some government agencies will be needed, and should be treated as a priority. Unremitting capacity building efforts should be implemented (7.1).
- **Enhancing aid effectiveness:** Government and partners should implement their commitment to financing National Priority Programmes and to channeling aid flows through the national budget. Further capacity strengthening should be provided to help government steer the NPPs and to manage budget flows efficiently. Joint programming – rather than just “coordination – should be the rule (7.2).
- **The need to move from vision to action on mainstreaming:** Counter-narcotics mainstreaming guidelines should be adopted and diffused, based on any necessary fine-tuning. Government should help all agencies to apply the guidelines systematically (7.3).
- **The imperative of long-term commitment rather than short-term expediency:** There is an asymmetry between the political expectations of government and donors for rapid changes in the opium economy and the reality of the one to two decades that are realistically needed before the opium economy dwindles. Effective counter-narcotics efforts inevitably are a combination of economic development, the provision of social

services, and better governance and the rule of law. This will take considerable time, massive and sustained financial commitment, and political vision and stamina (7.4).