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AFGHANISTAN**

COTTON PROJECT CONCEPT PAPER

Project Number: CADG02/03

Appealing Agency(ies): USAID, INL, other potentially interested organizations.

Implementing Organization: Central Asia Development Group

Location: Nadi-e-Ali, Marja, Nawa-e-Barakzai, and Garamseer Districts; Helmand Province, Afghanistan

Project Start Date: February 2002

Project Schedule: February, 2002 -December, 2003

Project Overview

Central Asia Development Group proposes a multi-phase project to eradicate a major portion of poppy cultivation in targeted districts of Helmand Province, Afghanistan. This program also includes efforts to expand cotton cultivation in the region, improve the quality of processed cotton, and to rebuild the international market for Afghan cotton. A major effect of the program will be to provide much needed short-term income for farmers in the targeted areas, as well as a long-term market for their product.

At least half of the unsold cotton stocks from crop year 2001 will be purchased from growers in the targeted districts for cash, in exchange for a pledge to plant new crop cottonseed on lands which are currently under poppy cultivation. Farmers will be closely monitored to ensure that a major portion of the current poppy crop is eradicated. Cotton purchased from growers will be processed at the cotton gin in the town of Lashkar Gah. The factory will process the cotton, and distribute the cottonseed back to the farmers for planting the new crop from March through May. Additional seed will be crushed at the factory for edible oil, seedcake, and soap, which are all valuable by-products for the families in the region.

Agricultural extension workers will be hired in the targeted districts to oversee planting of the new crop cotton on poppy land. Ridge/row planting of cotton will be encouraged by the extension workers, as opposed to broadcasting the seed. Fertilizer will be either subsidized or provided on credit to farmers for the new crop. Technical assistance will be provided to the farmers by extension workers, who will closely monitor the new crop. Demonstration plots will be established with new seed varieties in the districts in order to encourage growers in future to adopt improved seed. Modest, yet urgent improvements will be made to the ginning factory at Lashkar Gah, in order to improve the processed quality of the product, and to restart the production of by-products such as edible cottonseed oil, seedcake, and soap. These improvements will consist primarily of spare parts and technical expertise.

Marketing efforts will be instituted to build the international customer base for Helmand cotton. Existing stocks from 2000 crop year which are lying at the cotton factory will be marketed to customers in Asia and Europe. Current crop will also be marketed to potential customers as soon as it is processed. CADG and the donors should work closely with the Afghan Ministry of Trade and Industry to institute a sound system for regular export of the product. Cotton should be placed in duty-free warehouses in Europe and Asia, and remain the property of either the donor or the Afghan government until sales are made. Proceeds of the sales of cotton may be recycled back into the project as a revolving farmers credit fund, and also used to invest in further extension work for the purpose of developing alternative crops in Afghanistan.

Background:

For a variety of reasons, poppy planting has surged in late 2001. During a recent trip in January 2002 to Kandahar and Helmand Provinces of Afghanistan, many fields were observed under poppy cultivation. Interviews conducted with farmers in the region indicate that local growers have put 25-35% of their lands into poppy cultivation during the last few months. At the same time, farm income has decreased significantly due to the decrease of price for wheat and other locally produced crops, and because of the lack of money on the part of the cotton gin to purchase the raw material from the farmers. This unsold cotton is a major problem for the farmers at this time. Faced with a lack of marketable alternative crops, many have chosen to risk cultivating poppy as a source of income.

The government-owned cotton gin at Lashkar Gah in Helmand Province is normally the purchasing entity for Helmand cotton. This factory comes under the control of the Ministry of Trade and Industry in Kabul, and has always been state-owned. The central government is also responsible for managing the export of the cotton to international markets. Since the 1970s, this factory has been buying cotton from farmers, and re-distributing the cottonseed back to growers for the next crop. The farmers' cotton is processed, separating the seed from the fiber. There is also an oil extraction plant at the factory that crushes seeds and refines the

oil to the point where it can be used as edible cooking oil. Other by products such as seed cake (for animal feed) and soap are produced in the processing of cotton. These by-products are important for the local populace, and are distributed by the factory back to the farmers. During the 1970s, as much as 30,000 tons of cotton was produced in Helmand. This production rate declined steeply during the years of war, and under the Taliban, supply declined further. The Taliban government did not pay the farmer in cash for his cotton, but instead issued payment chits for 60 or 90 days later. In practice, they actually paid much later than that. At the same time, the Taliban prohibited private gins from buying or exporting cotton. The Taliban exported up to 10,000 tons in some years to their own contacts in Pakistan. The growers suffered from the low prices paid, as well as the terms of payment. This resulted in a disincentive for production. Still, in the past few years, farmers continued to cultivate cotton, although not nearly on the scale of 1970s production levels.

The factory at Lashkar Gah bought at least 6,000 tons of raw cotton from farmers in the previous crop year, which was harvested in September and October of 2000. From this amount, approximately 2000 tons of processed cotton is stored at the factory, and has not been sold to international buyers due to a lack of knowledge about the world market. The current crop was harvested during September/October 2001. Due to the fall of the Taliban government, and for lack of funds, the factory has to date purchased only 130 metric tons of the current crop. They are unable to purchase further due to lack of funds, and there is no indication from the new interim government in Kabul that funds will be made available anytime soon. According to the factory management, there are up to 10,000 tons of unsold cotton still with the farmers. This figure is based on the amount of seed that was distributed to growers in the previous season, and on information from the farmers themselves.

Goals & Objectives:

OBJECTIVE #1: Eradication of up to 50% of the 2002 season poppy currently planted in the targeted districts.

ACTIVITIES:

- Central Asia Development Group will institute a purchasing program for crop year 2001 raw cotton from farmers at a guaranteed price. This purchase will be in exchange for a pledge to eradicate a major portion of their current poppy crop.
- Purchased cotton will be processed as fast as possible at the Lashkar Gah cotton gin, so that cottonseed for new crop planting between March and May 2002 can be distributed to farmers.
- Growers will plant new crop cottonseed on lands currently under poppy cultivation. This will occur under the supervision and surveillance of CADG personnel, who will act both as extension officers and monitors.

INDICATORS:

- 50% reduction of poppy due to the payment for 2001 crop year cotton, and distribution of seed stock for 2002 crop year.

OBJECTIVE #2: Improve and expand cotton quality and production in Helmand Province

ACTIVITIES:

- Place approximately 15 agricultural extension officers in the targeted districts for a period of at least one year to give technical assistance to farmers regarding production methods of cotton, and management of inputs.
- Fertilizer and pesticide (when necessary) will be distributed to cotton farmers.
- Place demonstration plots planted with upgraded cotton varieties in each district of the project.
- Employ a short-term expatriate technical advisor at the cotton-ginning factory in Lashkar Gah.
- Upgrade the cotton factory at Lashkar Gah with spare parts and some new equipment.

INDICATORS:

- Yield of cotton in Helmand Province will increase significantly due to improved crop management.
- Factory will be reasonably upgraded, and production of by-products will be increased.
- New, improved varieties of cotton will be gradually accepted by farmers in the region.

OBJECTIVE #3: Build international markets for Helmand cotton.

ACTIVITIES:

- Negotiations between the donor, CADG, and the Ministry of Trade and Industry in Kabul will be made for the purpose of obtaining release of the unsold stocks of processed cotton from 2000 crop year currently stored at the factory for export outside of the country to duty-free warehouses in Europe and/or Asia for further marketing to the large multi-national trading companies. Sales will be made on the basis of the London Cotton Exchange, less the appropriate discount for quality.
- Marketing efforts for the 2001 crop will begin immediately, with samples of the first processed cotton to be distributed to international buyers in all areas of the world.
- Information will be disseminated to potential buyers regarding the quality improvement program underway for Helmand cotton, in an effort to attract attention from the major players in the cotton business in the hopes of finding a potential investor for a future joint-venture or privatization of the factory.
- The presumably improved cotton crop from 2002 will be marketed to international buyers.

Impact

The major impact of this program for the international community will be the significant reduction of poppy in the targeted areas, which are prime poppy cultivation districts. The farmers in Helmand will be positively affected by the appearance of a program that will provide for purchase of their unsold stocks of cotton, providing them with much-needed income at a critical time. Local growers are very concerned that the government will announce a ban on poppy cultivation, and that anyway they may be forced to eradicate their crop. This program will give them short-term income, as well as seed to plant for the upcoming season. Increase in cotton production should lead to the development of local industries such as weaving, transport, and trading. Most families in the targeted district will be positively affected by this activity.

Sustainability

The design of this project is such that its main intentions are to eradicate poppy as a cash crop in Helmand, and to build the long-term production and marketing of Helmand cotton. Sustainability depends on the price that can be obtained for Helmand cotton on international markets. Improved prices will trickle down directly to the farmers, who will have a long-term incentive to improve cotton production. Agricultural extension officers are a key component contributing to sustainability. These officers must be employed for a minimum of one year in order to have a major effect on agricultural practices. They should form the core for a new extension system of a revamped Afghanistan Department of Agriculture.

Funds generated by the export and sale of Afghan cotton will be used as a revolving fund to purchase more raw cotton, as well as to maintain the extension system. After a period of 2-3 seasons, the entire project should be self-sufficient. This will depend on world price trends for cotton. If one of the major international companies can be convinced to invest in the Helmand region, then chances of long-term sustainability will be increased.

Constraints

- **Time:** This program must commence immediately in order to meet the deadline for distribution and planting of the new crop cottonseed.
- **Farmers' Debt:** Some farmers will keep their poppy under cultivation in any case, as they are in debt to Opium buyers from the previous two seasons, and have taken cash loans, obliging them to repay with Opium.
- **Quality:** The quality of Helmand cotton must be improved in order to gain a lucrative international market.

Monitoring & Evaluation

Monitoring will be an on-going and central component of the program. CADG will monitor the program both from its international office as well as through visits by the Executive Director to the project site. Additionally, the donor or its nominee would be welcome to actively monitor and participate in the project. Progress reports will be submitted on a regular basis in accordance with the requirements of the donor. Progress will be measured against stated goals, objectives, and indicators. At the end of each phase of the project, a report will be issued.

Cotton purchasing will be monitored by our own staff who will be placed at the factory in Lashkar Gah to observe incoming raw cotton, who will verify weight and release payment to the farmer. Records of all transactions will be maintained. Distribution of cottonseed back to the farmers will be tallied, and this information passed on to our extension officers, who will then monitor the planting of same amount of seed on poppy lands. Figures will be reconciled regularly to ensure that farmers are in fact planting all of their cottonseed. District Shuras will be consulted for the purpose of influencing local growers to follow the program.

Export and sale of the cotton will be managed by our own expatriate personnel. Cotton brought to duty-free warehouses will be completely secured and accounted for at all times. Proper accounting records will be maintained for all sold cotton, and proceeds will go into a segregated account to be maintained abroad until such time as a proper hard currency account can be opened in Afghanistan.

Implementing Capacity

Central Asia Development Group has the ability to implement this project on several levels. We have personnel on staff who have participated in various poppy-control programs on behalf of a variety of donors. Our agricultural specialists are intimately familiar with the situation in Helmand Province, and have been working in the region for decades. Expatriate specialists will be employed as consultants where necessary in key areas to ensure that the factory is producing cotton of the highest quality possible. Good relations of our staff with local government and religious leaders will ensure the best possible cooperation of local authorities. Expatriate staff have existing contacts in the cotton industry, as well as the ability to market the product effectively. Our expatriate associates have offices in Asia, Europe, and the USA that can be utilized to execute a marketing campaign. Experience in transport will ensure that product is shipped and delivered safely.