



Ministry of Commerce

Commercial Competition Commission of Afghanistan (CCCA)
Three Cluster Discussion Document
September 14, 2005



USAID
FROM THE AMERICAN PEOPLE

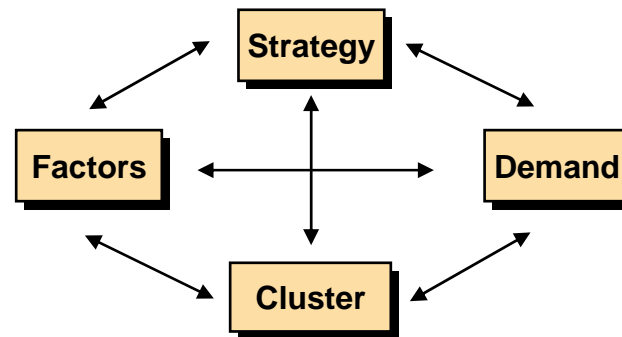


Dried Fruits and Nuts

Afghanistan Dried Fruits & Nuts Competitive Diamond

- Limited domestic rivalry because many processors have ceased operations
- **Marketing of product is opportunistic to very low paying customers**
- + Extremely small number of traders who have established niche customers.

Low



- + 2/3 of production is consumed locally with excellent knowledge of quality
- + High quality US products are on the local market, indicating demand for first world products.

HIGH

- **Financial sector constrains development with limited investment and working capital, although new financial products are coming online.**

+ Numerous donor programs in place to provide technical assistance with farmer extension, processing, and marketing.

- Limited research & development facilities in the country.
- Transport sector is constrained by questionable business practices of their Pakistani and Iranian counterparts.

Low



Afghanistan is currently exporting basic products based on what it produces, not what customers need.

- + Basic dried fruits & nuts are unique and high quality
- + Close proximity to attractive Indian market
- + Entrepreneurial skill set of many returnees will be an advantage in relaunching the sector.
- **Poor processing at all levels results in an unsanitary product**
- **Raisins are cultivate using traditional techniques, not trellises**
- Irrigation systems are in disrepair
- All industry players need training on quality improvement & customer needs

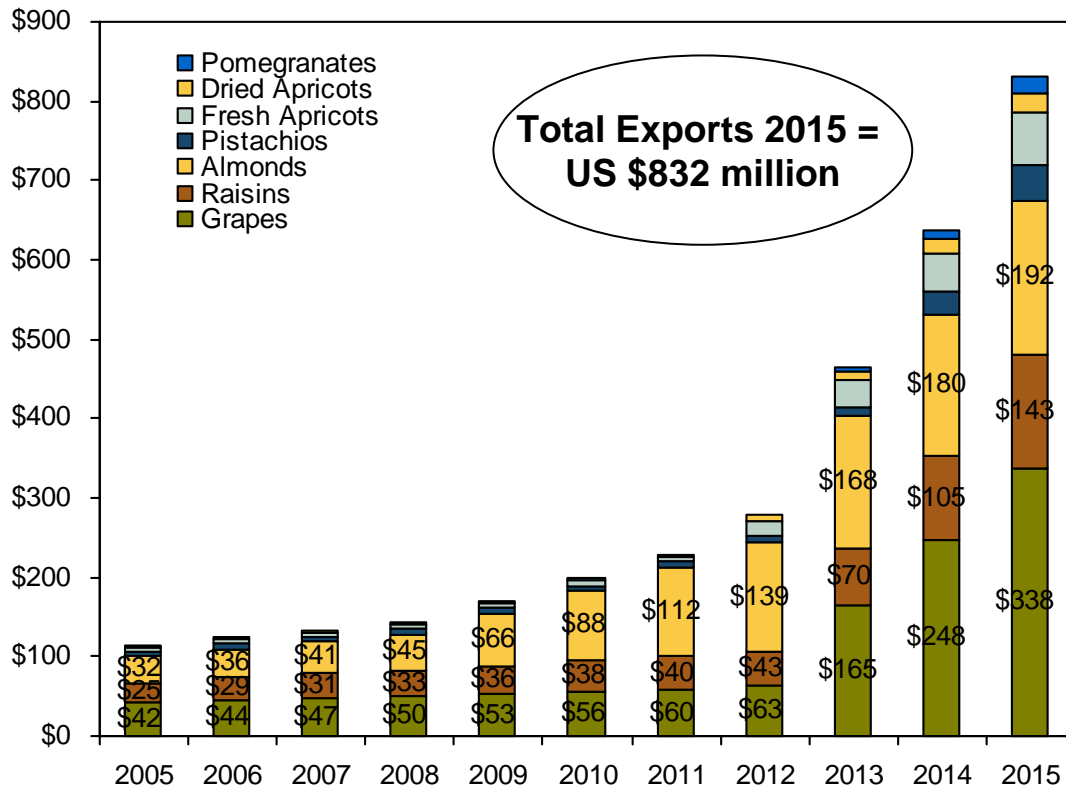
Medium

Dried Fruits and Nuts

Summary of Proposed Aggressive Targets

Exports of Afghanistan's priority horticultural products could go from US \$113 M to **US \$832 million** with heavy investment in marketing, processing, and production.

Overall Horticulture Export Value Goals (2005 – 2015)



Total exports, 2015	\$832,161,223
Total investment costs	\$520,294,061
Total annual operating costs	\$200,568,582
Total production + exports, 2015	\$1,169,665,323
CAGR 2005-2015, production + exports	16%



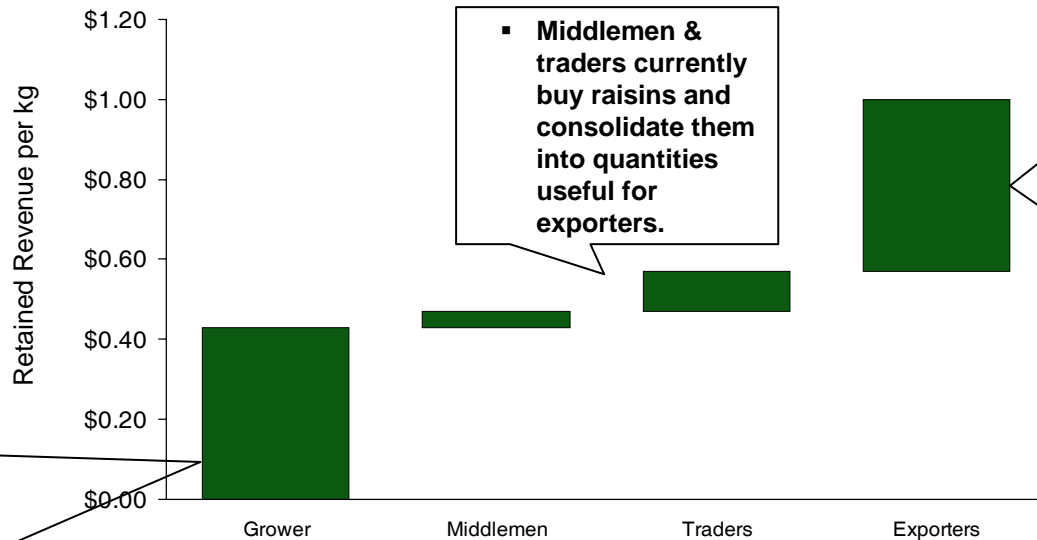
- Volume growth is driven by converting existing orchards and vineyards to commercial management and increasing hectares under cultivation by 75% to 158,000 hectares at a cost of US \$532 million.
- Value growth rates target the average export values of large competitors such as the US, Turkey, and Iran by 2015.
- Total estimated investment cost over 10 years for all components of the action plan is **US \$600 million**.

Dried Fruits and Nuts

Domestic Industry - Value chain for sundried raisin exports

Aftabi raisin quality is negatively affected by poor processing on the farm, intermediaries who do not reward quality, and lack of investment in modern processing equipment.

Retained revenue per kilogram for each component of the value chain: aftabi raisin exports from Mazar to Moscow



- Farmers see aftabi as by-product and do not pay attention to quality in the vineyard.
- Efforts to improve quality through the use of paper trays; currently market does not reward quality.

- Middlemen & traders currently buy raisins and consolidate them into quantities useful for exporters.

- Exporters are locked into unattractive Russian market (90% of aftabi exports)
- After customs and transport costs, most are currently earning 5-8%, which restricts & discourages new investment
- With better performance throughout the value chain some believe that exporters could earn \$2-3 / kg in new markets.

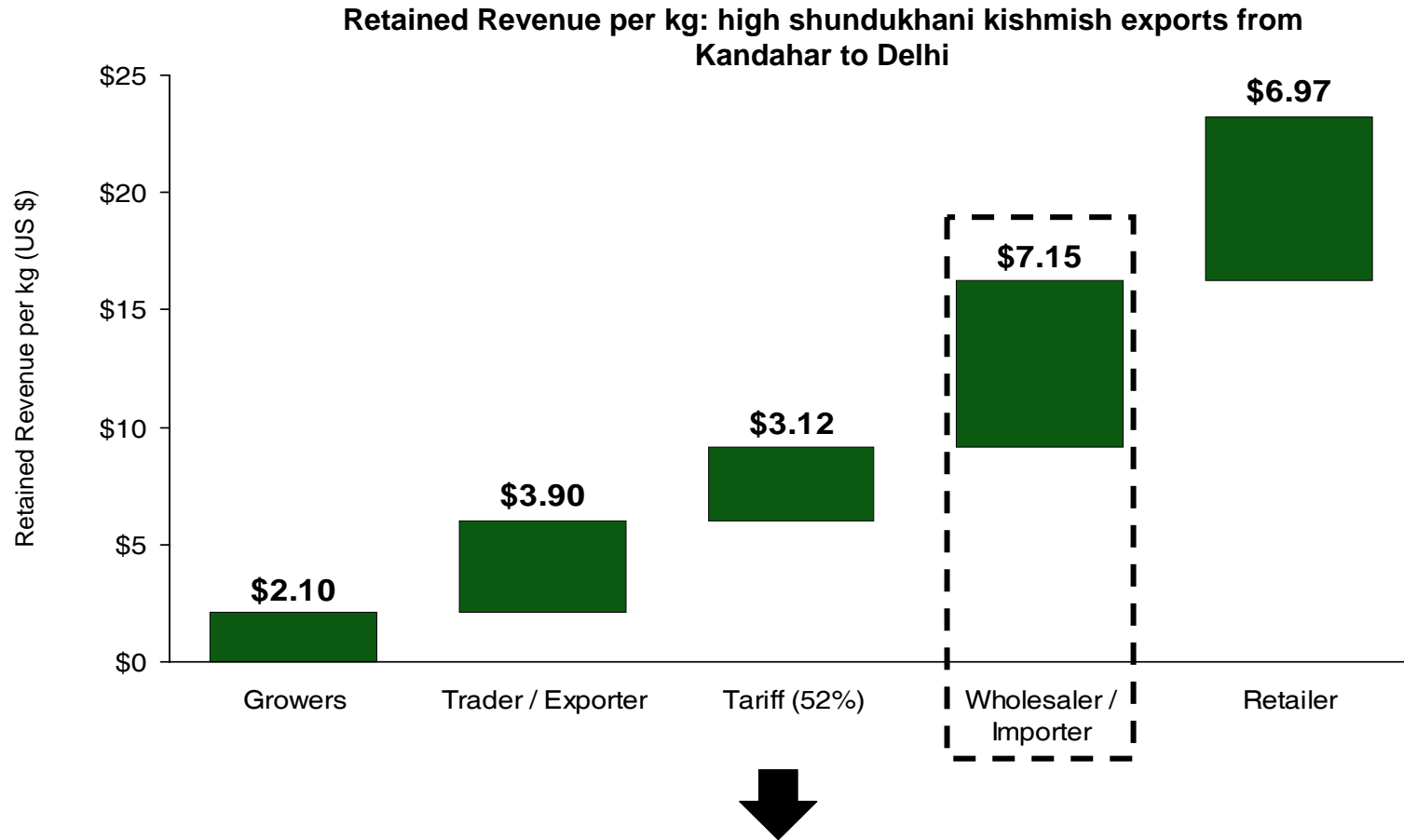


Challenge: improving quality throughout the value chain.

Dried Fruits and Nuts

India Survey Results - Pros and cons of forward integration

Afghan exporters could capture 30-40% more value and begin to learn about retail customers by forward integrating into major Indian wholesale markets.



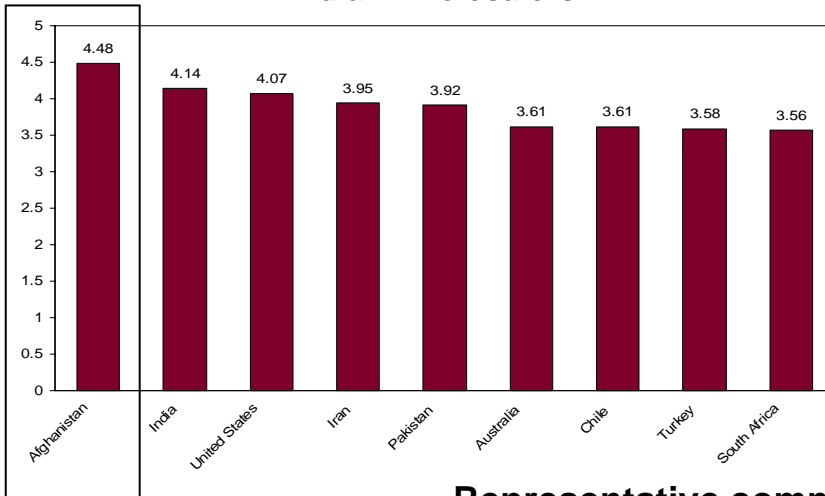
To win in the wholesale market, Afghans will need precise market knowledge of customers and their competitors.

Dried Fruits and Nuts

Afghanistan's Relative Positioning – India

Both Afghan traders and dried fruits & nuts have an amazing natural positioning. Indian buyers trust Afghan exporters and Indian consumers love the taste of the products and pay large premiums for them over competing products from other countries.

**Perceptions of supplier country quality:
Indian wholesalers**



Raisins for sale in Mumbai



Afghan raisins
for sale at \$5.60
to \$7 / kg

Indian
raisins for
sale at
\$3.26 / kg

Representative comments from buyers & consumers:

“I can trust 99% of the Afghan buyers that I deal with; they always send good product” – Head of Dried Fruit & Nut importers association in Mumbai

“Afghan raisins are natural and sweet, there's no bitter taste like the raisins from Nasik (India)” – Mumbai retailer during a focus group



Afghans can capitalize on their strong brand to forward integrate into India and earn higher margins and learn about retail customers.

Dried Fruits and Nuts

Issues, Initiatives and Benefits



- **Outdated processing methods:** Afghan exporters are currently using 30 year old equipment or do not use equipment at all.

- **Business plan development:** the clusters identified two business models to upgrade the industry: an integrated raisin processing plant and a nut factory upgrade.

- Access to finance for 10 new businesses, equal to approximately US \$1.5 million over the next year.

- **Low production levels:** exporters have difficulties finding high quality fruits and nuts in local markets because of low orchard and vineyard yields.

- **Investment into vineyards & orchards:** the cluster workgroup with Ministry of Agriculture is developing a plan to upgrade thousands of hectares of vineyards and orchards.

- Increase productivity up to 100% for orchards and vineyards, and income growth for 300,000 farmers.

- **Poor choice of markets:** exporters are currently serving opportunistic markets such as Russia and Pakistan that pay among the lowest prices in the world for Afghan dried fruits and nuts.

- **Forward integration to India:** instead of selling to customers that approach them, Afghan exporters are determined to pursue the best customers in the world. A group of 15 exporters is now planning to enter the Indian wholesale market.

- Increase revenue between 30 to 40%, gain knowledge of the changing Indian retail market.

Dried Fruits and Nuts

CCCA Support to Cluster Initiatives – Transformation of Horticulture

Top Priority: Invest into vineyards and orchards:

- **Short-term:** Develop facilitation of input credits to farmers and collaborate with the Alternative Livelihoods Project in Helmand / Kandahar to implement a pilot project for grape/raisin farmers (begun by OTF and cluster). **Long-term:** Design a large-scale investment mechanism for perennial horticulture, which will address grapes, apricots, pomegranates, almonds, and pistachios (with Ministry of Agriculture, the World Bank, OTF and others).

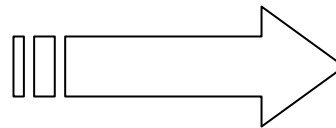
Required CCCA involvement:

- **Invest first into apricot and almond orchards, and vineyards** at an approximate cost of **\$532 million** dollars over the next 10 years. In order to solicit these funds, the public, private, and civic sectors (ie, the CCCA) should ratify this as part of a larger plan to re-launch the sector and then market it to investors.



Juis or earth berms used to grow grapes in Afghanistan. Typical yields: 8.9 mt / HA.
Photo courtesy of Tom Brown.

Transformation of the Horticulture Sector



US \$532 million



Modern trellising.

Yields: up to 25 mt / HA

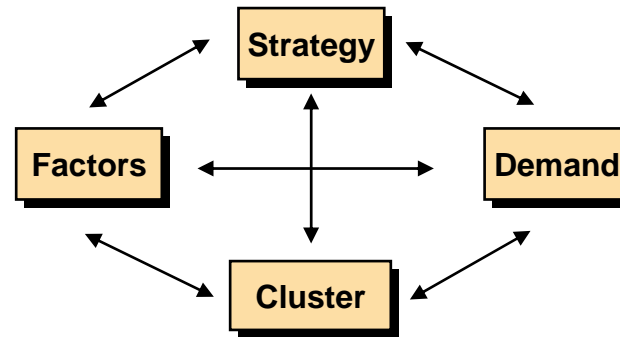
Marble and Stone Industry

Afghanistan Marble Competitive Diamond

- Large domestic demand absorbs small production base (approx 1,000 tons/month)
- **Short-term mentality from quarries leads to exporting unprocessed stone (80% of quarried stone)**
- Natural resources may be undervalued, leading to inefficiencies in the industry (\$10 levy per ton)

- + 100% of processed marble sold for local construction. *“As much as I make, I can sell”* – processor in Kandahar
- + Continuous shipments of unprocessed marble to Pakistan and many European and other foreign buyers asking for Afghan marble indicates strong export potential.

Low



High

- Financial sector constrains development with limited investment and working capital, although new financial products are coming online
- Little knowledge sharing between cluster members
- Poor institutional support from ministries – no surveying capabilities, murky procedures for quarrying rights, land titling issues, etc.

Low

Medium



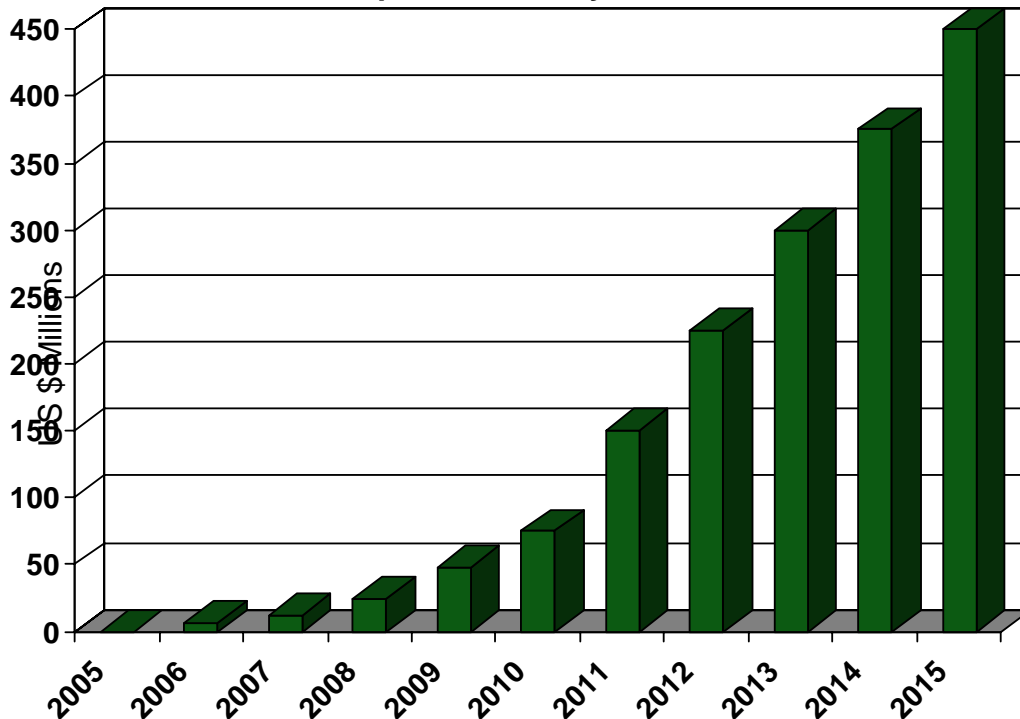
Lack of investment due to a variety of factors has retarded industry development and competitiveness.

Marble and Stone Industry

Proposed Aggressive Targets for Discussion

Current Afghan marble exports are probably under \$1M. Private sector investment into quarries and plants of \$107 M could help the industry grow to \$450 M by 2015. Government investment into roads and power will be needed to help the industry achieve its goals.

Proposed Industry Revenue Growth



Total revenues 2015	\$450 M
Total required investment	\$100M
Estimated employment (quarry & plant)	20,000

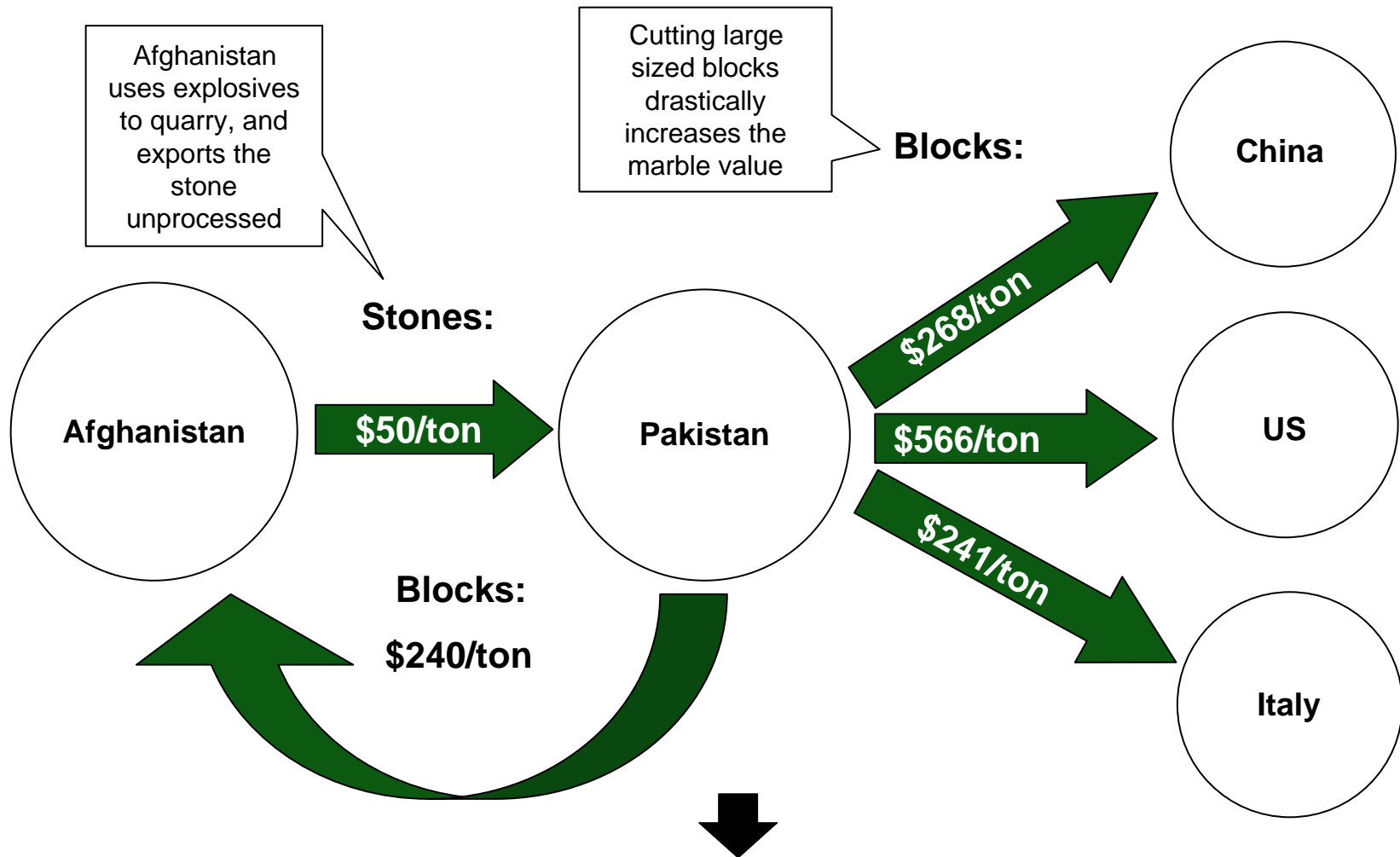


Assumes:

- World growth continues at 8% p.a. for the foreseeable future.
- Add 250,000 tons total local capacity from 2006 through 2010 and 250,000 tons per year from 2011 to 2015. Total capacity in 2015 will be 1.5 M tons per year, or about 0.6% of estimated world production.
- Price will be about \$300 per ton. 90% of exports will be slabs and tiles, 10% will be blocks and *no more* sales of rough stone.

Marble and Stone Industry

Obstacles: Lack of forward integration

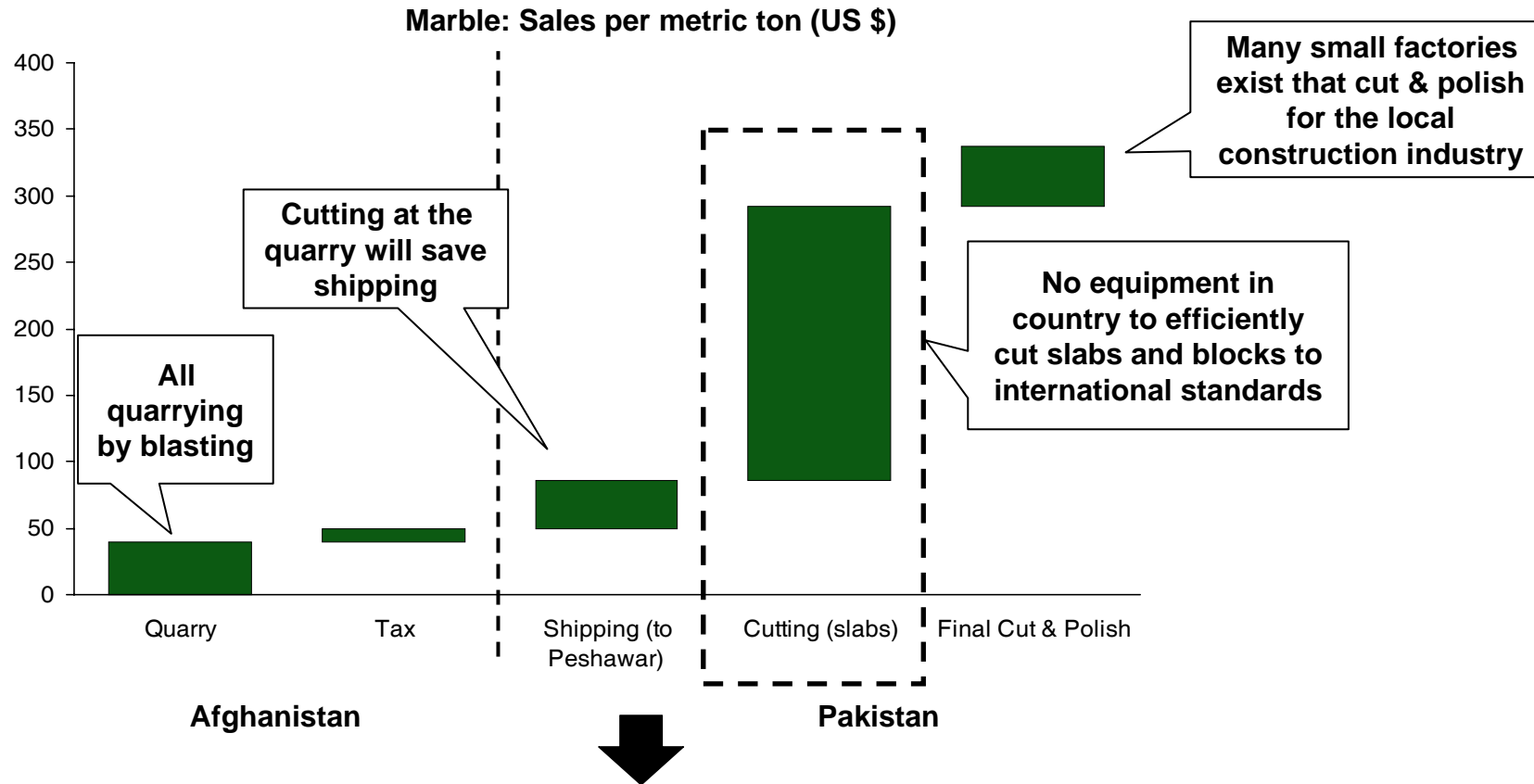


Value is lost in going through middlemen. Afghanistan must forward integrate by investing in trade links and processing capacity.

Marble and Stone Industry

Possible value chain for marble exports to Pakistan

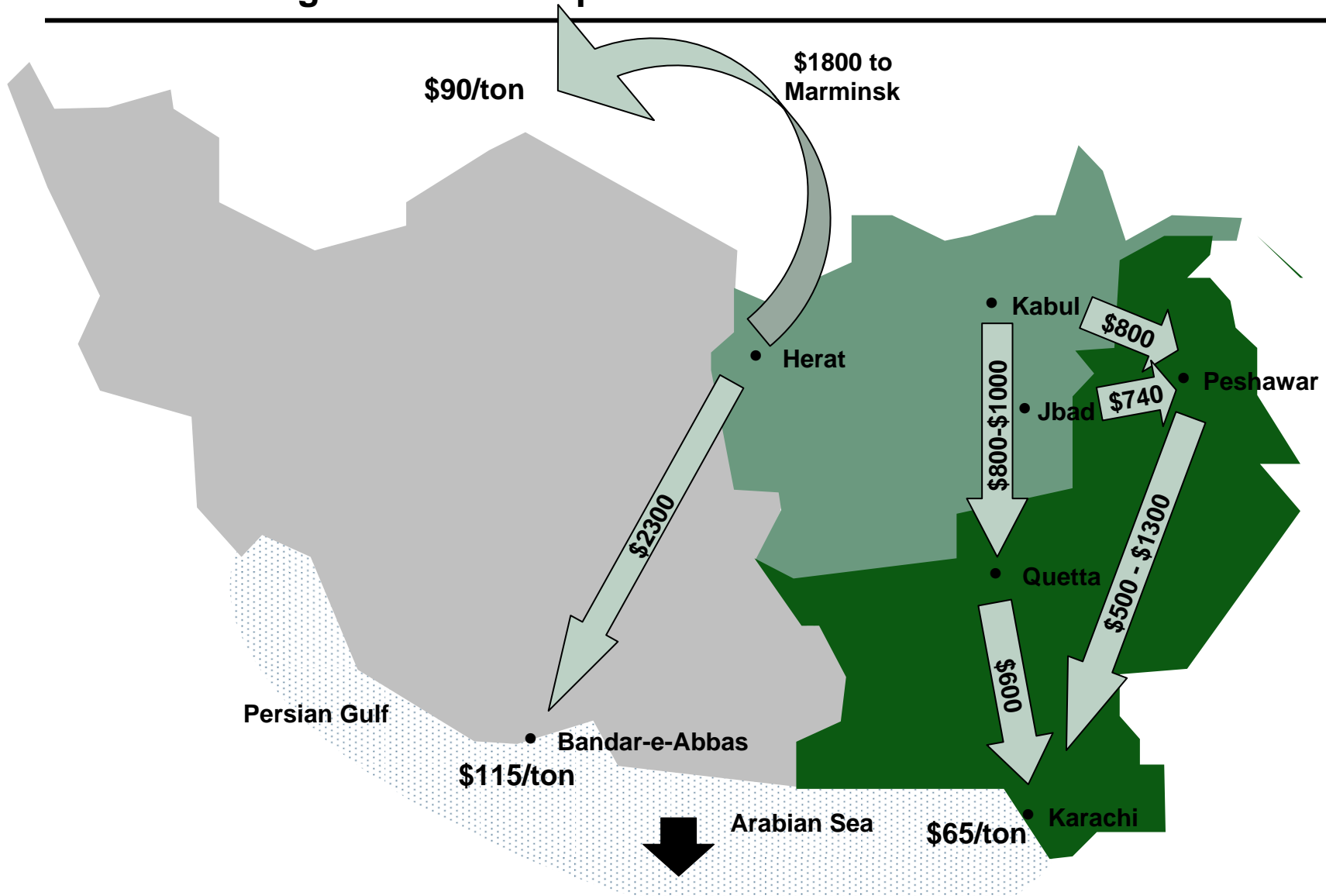
Afghanistan exports only uncut marble and imports cut tiles for final cutting and polish for use in local construction.



Investments in cutting equipment are necessary to capture more value. Cutting and polishing firms receive the most money for selling marble.

Marble and Stone Industry

Obstacles: High cost of transportation



Transportation is the largest cost for Afghan marble exports overseas.

Prices for 20' containers weighing max of 20 tons

Source: Interview with Kargar, head of Freight Forwarders Association

Marble and Stone Industry

Priorities

Quarrying:



Explosives at **Khogiani quarry in Nangahar** create small 8 – 10 ton irregular shaped stones with micro fractures.
Waste at 80%.

VS



Quarry in **Rajasthan** prepares 250 ton block from a quarry onto a bed of sand. Wire cutting into export ready 15-20 ton blocks, per customer specification.
Waste at less than 10%



Production cost in Afghanistan are \$12-13 m² vs. \$3.5-\$4.5 m² in India. India has higher throughput and less waste due to its better quarrying and processing.

Marble and Stone Industry

Issues, Initiatives and Benefits



- **Lack of capital investment:** 80% of stone from Afghanistan is sold unprocessed; virtually all quarrying is by explosives.

- **Capitalize quarries and factories:** Stop blasting and improve quality to enable value added exports. Use Proposals/site surveys; and source technical and financial support.

- Increase value captured from \$50/ton to up to \$400/ton.

-
- **Coordination required** to target exports on issues such as marketing and quality standards for the industry.

- **Create association:** Create association to represent industry locally and internationally.

- Create effective organization similar to Union of Stone and Marble in Palestine, which coordinates efforts of a \$500 M a year industry.

-
- **Lack of foreign market knowledge** among local industry leaders regarding international dimension stone markets.

- **Conduct market research:** into international marble markets, beginning with Dubai, Saudi Arabia and U.S.

- Improve international market knowledge and trends,
- Create database of marble buyers

Marble and Stone Industry

CCCA Support to Cluster Initiatives

Top Priority: Invest in quarries and processing plants

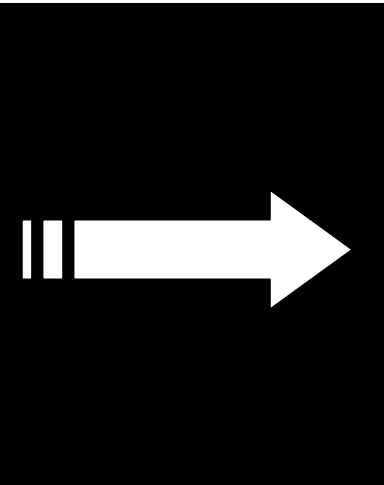
- Invest in operations that can produce export grade products. Current processing and quarrying method destroys raw material and prevents industry growth.

Required CCCA involvement:

- Enforcing the new mining law can be an issue, as access to quarries is blocked by regional government and poor security. The CCCA can help monitor and enforce the new law by bringing violators to the attention of the appropriate authorities and the press.
- Financial and business development services must be developed to facilitate private sector led growth.
- Infrastructure near quarries should be developed



Khogiani quarry, Nangahar

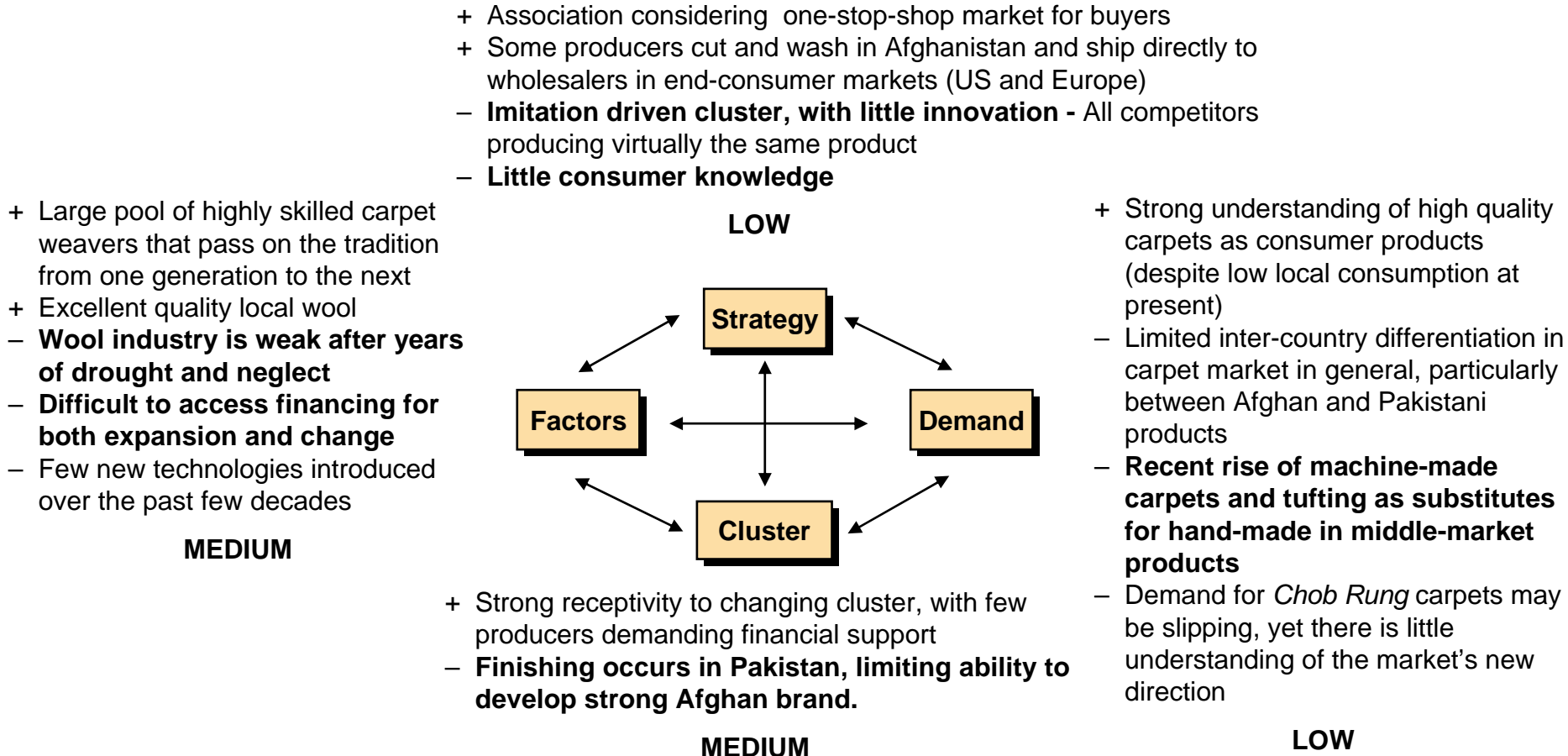


Rajasthan Quarry, India

Afghan Carpets

Afghan Carpet Competitive Diamond

Building on generations of carpet production, the Afghan carpet sector can compete internationally.



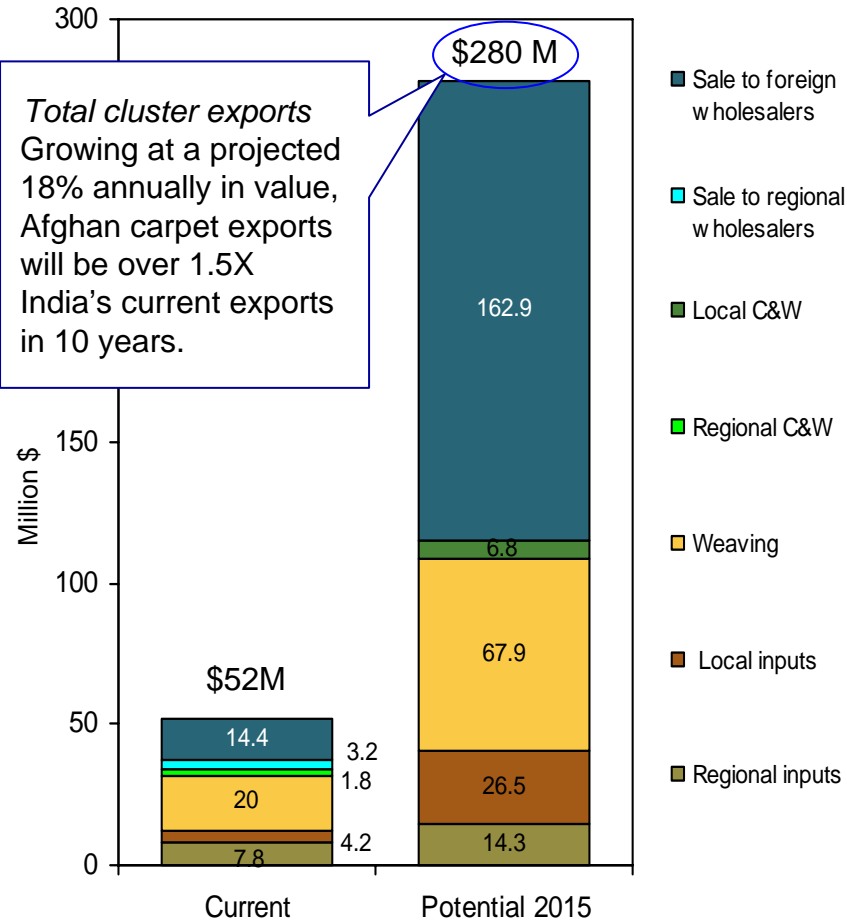
Greater independence from Pakistan throughout the value chain will be required to build a differentiated brand and increase sales to end-market buyers.

Afghan Carpets

Summary of Proposed Aggressive Targets

Carpet cluster growth should include a transfer of value from other countries to Afghanistan.

Projected 10-year change in value distribution @ 18% sector-wide annual growth (\$ millions)



Sales and trading

- Little value is captured from low-margin sales to regional traders.
- In 10 years, targeting foreign wholesalers could represent an increase from \$3.2 M to \$163 M.

Repatriation: Cut and wash (C&W) and other

- Strategically vital C&W provides small revenues, but allows for carpet finishing and branding
- Currently 12% done in-country.¹
- Growth assumption based on keeping pace with direct sales of end-market/foreign buyers.
- Determine other benefits for Afghan production; and create action plan to develop benefits

Weaving

- Based on a 13% annual increase in volume.
- Growth driven by repatriation from Pakistan, population growth and improved productivity.

Inputs

- Currently 35% of wool used is from Afghanistan.¹
- 10 year goal to switch to 65/35 volume share between local and imported wool to 50/50



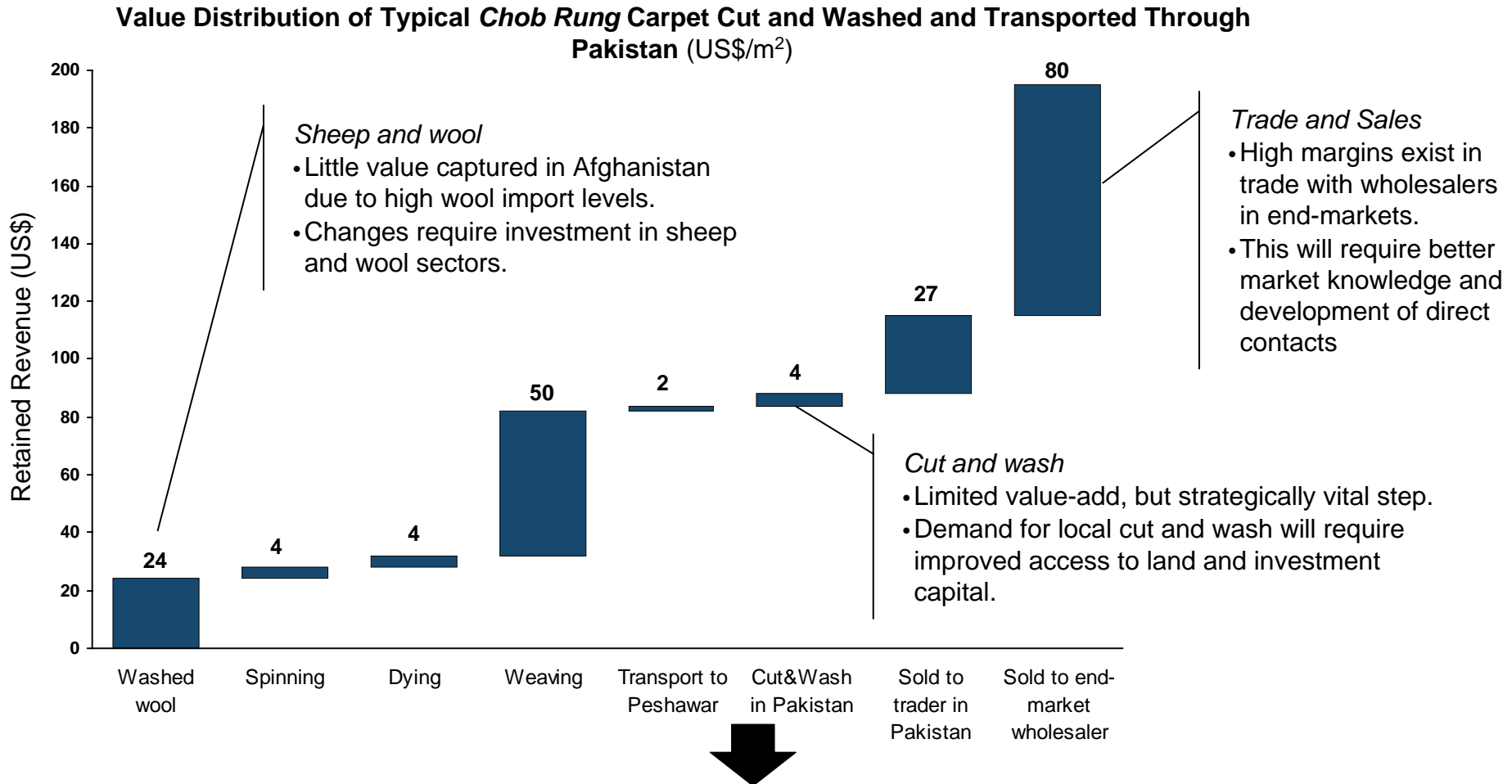
Increased value capture in Afghanistan will occur through using more local wool, more local cutting and washing, modern designs, and increasing sales to buyers in end markets.

1. OTF estimates.

Afghan Carpets

Investing Across the Carpet Value Chain

The highest margins are in trading as close as possible to the end-consumer.



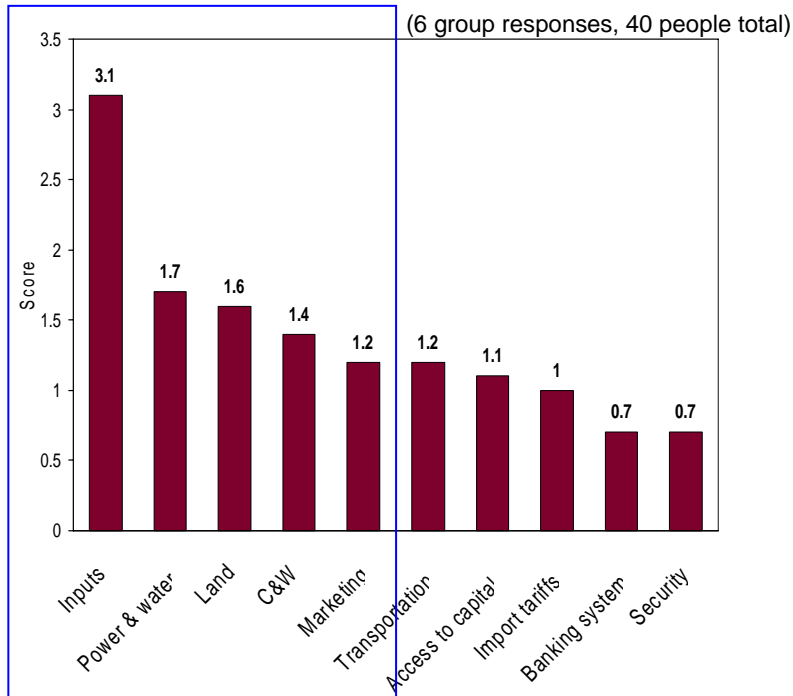
Industry-wide investment, from wool production to marketing and sales, is necessary for Afghanistan to be a leading carpet exporting country

Afghan Carpets

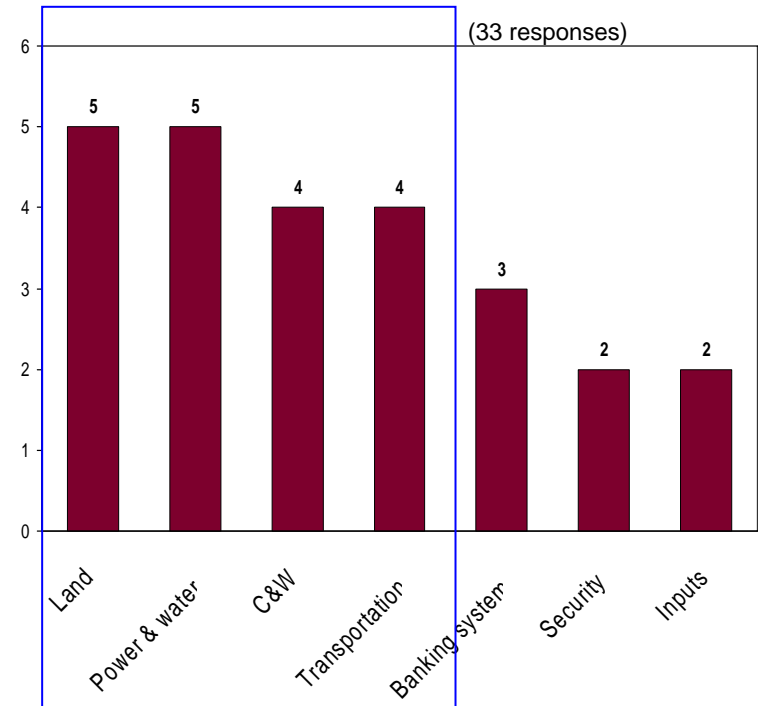
Business Barriers Compared

Access to quality wool is the largest business barrier listed by carpet producers. It is followed by two general business barriers – land and power & water – and two sector-specific barriers – access to cutting and washing facilities and the ability to effectively market Afghan carpets.

Top 10 Business Barriers Faced by Carpet Producers (Kabul, Mazar and Herat)



Most Common Business Barriers from Kabul Cluster Meeting



Among initiatives that the government addresses, the local wool industry should be a top priority; in Kabul barriers are land and power and water

Afghan Carpets

Competitor Analysis: India – Trading Closer to the End Consumer

Most sales by Indian producers are to wholesalers, though some producers are beginning to increase trade directly with retailers.



◀ *Carpet ready to ship to US retailer. Includes carpet and shop's label details*

Crate&Barrel



◀ *“After luck and God, it is honesty, sincerity and **relations with buyers.**”*

ORIENT WEAVERS
on how to succeed in the carpet market:

MAT TRADING ➔

- Over 500 designs
- Avoid wholesalers
- Exhibit at 10-15 fairs per year
- 5 in-house designers
- Develop own brand

Child labor issue is “very much important.”

Environmental issues are a “very serious issue for LDCs. The key fight will be starting now.”



◀ *On-line sales*

mat
THE BASICS 



Afghan Carpets

India – Marketing (Trade Shows) and Design Support (and R&D)



15th - 17th October, 2005
VARANASI

▲ Carpet fair
Child-free label ▼



- Government organization that represents carpet exporters.
- Main activity is international carpet fairs
- Manages Kaleen label.

INDIAN INSTITUTE OF CARPET TECHNOLOGY (IICT) ▲

- Public organization that provides knowledge and innovation services.
- Offers 4-year degree on carpet design and production and other training.
- Fee-based technical and consulting services for producers.

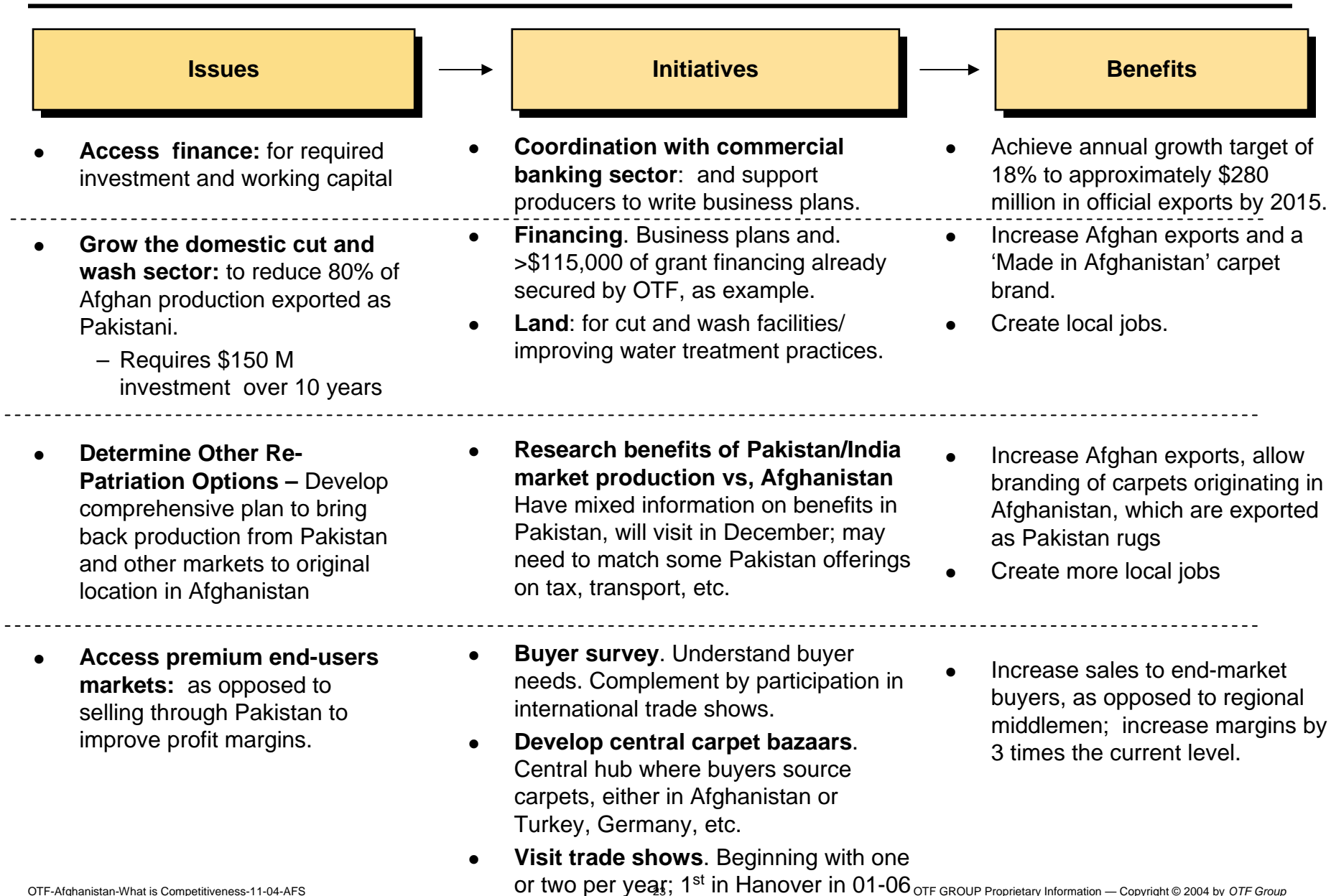


▲ Carpet design class at IICT



Afghan Carpets

Issues, Initiatives and Benefits



Afghan Carpets

CCCA Support to Cluster Initiatives: Investment in Local Wool Sector

Priority: Investment in Local Wool Sector

- Increase local wool inputs to ensure greater value for Afghanistan – Only one-third of wool in Afghan carpets is sourced locally.¹
- Increase wool sector, government and donor attention to invest sheep flocks and pasture.
 - Herd Size
 - Veterinary Care
 - Feed and Grazing Issues

Suggested CCCA involvement

- Wool investment will require a multi-partner solution from the Ministry of Agriculture's Livestock Department, the Ministry of Commerce, Carpet Associations, individual carpet producers and sheep farmers, donor organizations and associations.
- Recommended first steps should include investment assessment and coordinated plan.

Upcoming Issue

- Local support for carpet industry to repatriate carpet production
 - Land Access
 - Trade Show Support
 - Other Incentives

1. Source: OTF analysis and estimate: Flock size depleted by almost 90% during wars
OTF-Afghanistan-What is Competitiveness-11-04-AFS