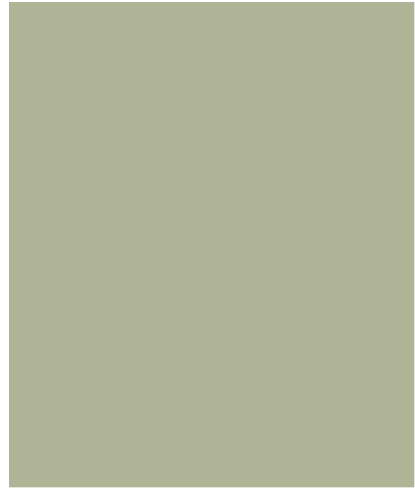


## Developed industrial sites for processing plants

Afghanistan is providing investors access to developed land to set up in professionally managed industrial estates. These modern parks offer investors the benefits of high-quality infrastructure and reliable power supply in “build to suit” sites, strategically located in several key industrial areas. Designed to accommodate small, medium and large-size firms, the parks help investors to avoid costly title disputes, and to reduce risks and delays associated with land acquisition zoning and permitting. The first phase of construction initiated by the Industrial Parks Development Authority is for three parks: Bagrami, 24 hectares 7 km east of central Kabul; Mazar-e-Sharif, 26 hectares 7 km north of downtown; and a 15-hectare park 10 km east of the city of Kandahar. The second phase of larger parks, in progress, includes 120-hectare Kamari near Kabul, 120-hectare Sinjet Dara south of Charikar and 750-hectare Deh Sabz, just north of Kabul Airport.



## An expanding sector—from dried fruits to consumer staples

Afghanistan’s expanding food and beverage processing sector reflects the country’s core strengths in dried fruits and nuts, as well as new products typically supplied as imports, such as bottled water, soft drinks and vegetable oil. Horticulture, including processed flowers and essential oils, is a hallmark of Afghan agriculture. Raisins dominate this sector, as the largest economic horticultural crop in Afghanistan and its primary export commodity. Apricots and nuts, such as almonds and walnuts, are also commercially cultivated as export products. Raisin processing plants across the country—the legacy of a traditional Afghan industry that once accounted for 60% of the world raisin market—are awaiting investments to increase and improve production. Numerous Kunduz and Kabul-based processors are offering Afghan consumers an alternative to imported vegetable oils. In the beverage industry, distilled water and multinational soft drink bottlers are establishing large plants to serve the domestic market.

Based in a traditional industry with a reputation for quality exports, the food and beverage processing sector enjoys several inherent advantages. First, there is proximity to low-cost materials. The arid to semiarid climate and hot summers are particularly good for cultivating a large variety of fruits and vegetables that can be dried, canned or prepared for other packaged foods. Afghanistan has more surface water availability than the Central Asian Republics and Iran, which allows for relatively lower costs for irrigation. Among buyer markets of dried fruits and nuts, such as Russia, Pakistan, the UK, Canada and Germany, the Afghan brand is traditionally known for quality. There is also a considerable pool of knowledge and skills around the industry that can only be strengthened as Afghans with newly acquired business and production expertise return home to invest and work.



## A “one-stop shop” to support investors

AISA, the Afghan Investment Support Agency ([www.aisa.org.af](http://www.aisa.org.af)) was established in August 2003 with the support of the Federal Ministry for Economic Cooperation and Development, Germany. Its comprehensive line of services to attract and assist investors includes the registration of all new investments in Afghanistan. AISA acts as a centralized point of contact for investors within the Afghan government, streamlining business licensing and other procedures to facilitate the investment process. In particular, AISA assists investors with:

- Licensing—necessary permits, licenses and clearances
- Information—on investment opportunities, including details on investment, tax, labor, insurance and environmental laws and regulations; social/ecological standards; financial information on banking and credit, labor costs and investment incentives; donor-led support programs
- Land support—the acquisition and leasing of land, including sites in industrial parks
- Customs clearance—for investment-related capital goods
- Online services—ask a question or file a license application online at [www.aisa.org.af](http://www.aisa.org.af)
- Investment opportunities—announcements via foreign missions and Afghan Embassies
- Conferences—sponsored by AISA and geared to investors

## Contact AISA

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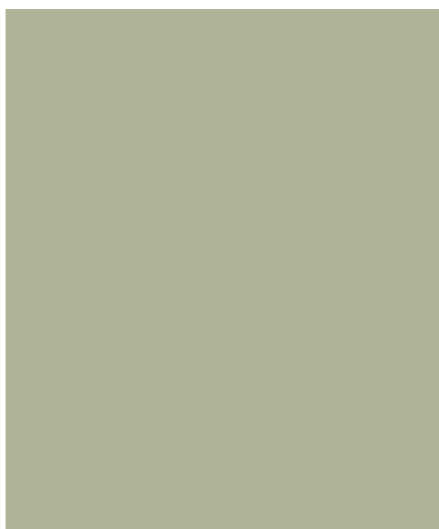
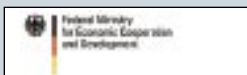
[info@aisa.org.af](mailto:info@aisa.org.af)

**In Afghanistan**, visit AISA’s offices opposite the Ministry of Foreign Affairs in Kabul.

### Photo credits

Michael Foley, Keith Martin, Palani Mohan, Jaime Pfaeffle, UNDP.

This project is supported by:





# Invest in Afghanistan

Opportunities in  
Food & Beverage Processing



## “The state protects and promotes private investment based on a free market economy”

– Article 10, Afghanistan’s Constitution

### A high-growth economy and dynamic business climate

Afghanistan’s climate for business has vastly improved to the advantage of new and returning investors in many sectors, including food and beverage processing. Afghanistan is a fully functioning, free market economy. The promise of political stability and a more secure operating environment for companies signal that the environment is ripe for forward-looking investments. For the past three years, economic growth has averaged about 20% per year, with minimal inflation since early 2003. The rapidly growing economy is bolstering demand for products and services among Afghanistan’s relatively young population of 28 million—a potentially sizable consumer market. The government’s commitment to developing a competitive, export-oriented private sector, in conjunction with the current, 3-year infusion of US\$8.4 billion in international assistance, is setting a rapid pace for expansion and fueling opportunities in construction and manufacturing. Afghanistan is poised for a new era of economic growth. New and returning investors not only have the opportunity to support the rebuilding of Afghanistan’s economy, but also to benefit from rapid growth, a pro-business environment, and the country’s strategic location.

The Afghan government’s sweeping program of reforms is enabling the private sector to become the country’s engine for growth. Investors from 25 countries—including major multinationals in food processing, transport and logistics, banking, tourism, and trade—have set up Afghan operations. The improved climate for foreign and domestic investment is shaped by several key initiatives:

- **Proposed investment law**—“investor friendly” and regionally competitive
- **AISA, the Afghan Investment Support Agency**—“one-stop shop” to assist investors
- **Financial sector reform**—Central Bank and leading foreign banks open for business
- **Investment insurance**—available through MIGA and others
- **Industrial estates**—development of six modern industrial parks
- **Improved infrastructure** in telecommunications, roads and bridges, and water supply
- **Trade reform**—streamlined customs administration and reduction in tariffs
- **Preferential trade** with the EU, US, Canada, Japan, India and Iran
- **Trade agreements** with Iran and India, and other neighboring countries
- **Transit agreements** including Iran, India, Pakistan, Uzbekistan and Turkey



## STUDY RESULTS AT A GLANCE

### All Surveyed Companies

*These highlighted results reflect the findings from all investors surveyed for the recent Afghanistan Enterprise Benchmarking Study.*

#### **Company Sample**

While many of the 32 interviewed companies began operating in the last year, they frequently are not new to operating in Afghanistan. Their perspectives reflect day-to-day business and in some cases, years of experience in their sectors.

#### **Motivation**

One third mentioned “a desire to help Afghanistan,” or “patriotism” as at least part of their motivation in operating in Afghanistan; 15% said it was their only reason.

#### **Security**

Personal safety received above average marks—a score of 3.3 out of a best score of 5—among both Afghans and expatriates.

Nearly half of the companies reported no extraordinary security expenses; the others spent an average of more than US\$23,000 beyond normal security measures, such as guards and alarm systems.

Local and Afghan expatriate investors reported fewer safety precautions than foreign investors; however, foreign investors with formal safety measures and audits indicated that these were required by their headquarter offices outside Afghanistan.

#### **Site Selection**

On average four sites were considered before the current site was chosen.

#### **Personnel**

Managers are often either partners, own stock in the firm, or are paid in some combination of base salary and profit sharing.

All companies rated unskilled labor as abundant and available. Local investors consistently rated qualified personnel (managers, professionals, technicians and skilled workers) as more readily available than did foreign investors, likely due in part to their existing network of informal contacts.

Annual turnover of employees among firms interviewed is low.

#### **Telecommunications**

Almost all companies gave mobile phone services a better rating than landlines, scoring a 3.5 out of a possible best score of 5. Although internet access by satellite is offered by three providers, internet usage was not yet common among the firms interviewed, except in logistics and transportation.

#### **Utilities**

Most of the interviewed firms drilled their own wells and pump free water, purchase water from another well, or located near a natural source of water. Across all sectors, there is little dependence on the municipal or state electric power infrastructure.

#### **Transport**

Air travel is seen as the most reliable of modes with an average of 74% of goods arriving on time according to interviewed investors. Commercial goods tend to be shipped by road, rail and sea, and “duty exempt” goods tend to go by air.



## An insiders' perspective from current investors

The results of a recent study\* help prospective investors consider Afghanistan's general investment climate, and the actual costs and conditions of operating in specific sectors. The study analyzed information collected through desktop and in-country research and interviews with companies in four sectors—food and beverage processing, logistics and transportation, carpets and textiles, and mining. Located in Kabul and its vicinity, the 32 interviewed companies reflect a new breed of investors and the dynamic landscape of investment in Afghanistan. Highlights of the study's findings from all interviewed companies are shown here (at left), and just those from companies in food and beverage processing (at right).

\* *The Afghanistan Enterprise Benchmarking Study, conducted by the Multilateral Investment Guarantee Agency of the World Bank Group in December 2004 in cooperation with AISA, and funded through a grant from the Federal Ministry for Economic Cooperation and Development, Germany.*



Afghanistan's recovering domestic market is open territory for investors in food and beverage processing.

## Large country markets and global growth in specialty products

Investors in the food and beverage processing sector can capitalize on large, adjacent consumer markets, and on Afghanistan's growing domestic population. The fact that most processed food and beverage items are currently imported into Afghanistan to meet local demand shows clear potential for producing in country. In terms of exports, Afghanistan now provides only 2% of the US\$2.2 billion, 1.3 million-ton world market for raisins, pistachios, almonds and walnuts. India and Pakistan—two of the world's most populous countries—are proximate, natural buyer markets for Afghan products. In fact, Afghanistan's traditional fruit products, especially raisins, already are a recognized quality brand and common cooking ingredient among India's one billion consumers. In addition, the reduced import duties of several preferential trade agreements provide a strong incentive for exporters in Afghanistan. A recent agreement with India covers many dried and fresh fruits and nuts, including Afghan green, black, golden and red raisins.

Investors in Afghanistan can also benefit from growth trends in food preparation and consumption. Within Afghanistan, the largest and fastest growing sub-market in this sector is in fruit juices, estimated at US\$20 million in annual imports mostly from Iran and Pakistan.\* On a global scale, the dynamic market for organic foods, both processed and unprocessed, has grown 65% over the past two years. Fast growth is expected to continue for organic products, which can command a premium price. Pre-packaged, convenience foods are in high demand as well among busy consumers worldwide. A more mobile worldwide population and immigration have led to growth in prepared ethnic foods, which are increasingly transportable in freeze-dried, frozen and vacuum-packed forms. The estimated four million Afghans living abroad offer a ready-made buyer market for indigenous food products made in Afghanistan.

\* *UNDP/Altai Consulting, Market Sector Assessment in Horticulture, August 2004.*



## The opportunity—replace imports and expand quality exports

Afghanistan's opportunity for food and beverage processors rests both in import substitution and in the "added-value" production and marketing of exported products. Companies that establish Afghan operations early stand to significantly benefit as the first domestic suppliers of their products. They also will enjoy lower transportation costs than competing importers. Exporters of traditional products, such as dried fruits, can take advantage of Afghanistan's quality reputation in buyer markets through expanded product lines that showcase the Afghan brand. In addition, new and returning investors can apply their expertise and capital resources to upgrade product quality in order to compete on a global basis. A new laboratory for the testing and inspection of food products—located in the Ministry of Commerce Export Institute—is designed to help processors meet internationally recognized standards for quality control. Particular opportunities exist for investors providing modern processing and packaging equipment.

Among types of products, there is continuing strong potential in dried fruits and nuts, and nearly limitless possibilities for serving niche markets in convenience, ethnic and specialty foods and beverages. Multiple opportunities exist for suppliers in juice production, including specialized processors to crush, press, pasteurize, filtrate, fill and package juice products in three to seven popular flavors. Processing of tomatoes may present investment opportunities, given the tomato's widespread cultivation and increasing domestic demand for pastes and sauces.\* Preparation of essential oils from flowers, for use in perfumes and other products, is another area awaiting forward-looking investors.

\* UNDP/Altai Consulting, *Market Sector Assessment in Horticulture*, August 2004.

# STUDY RESULTS AT A GLANCE

## Food and Beverage Processing Companies

*These highlighted results reflect the findings from food and beverage processors surveyed for the recent Afghanistan Enterprise Benchmarking Study.*

### **Company Sample**

The study reflects interviews with 7 companies processing dried fruits and nuts, distilled water, soft drinks or vegetable oil. Most have begun operating in the last year to meet demand normally met through imports, or are ramping up after a long hiatus. The dried fruit producers have generally been in the business for 30 to 60 years; others have years of experience in this or related sectors.

### **Investment**

The sector is dominated by local Afghan investment and Afghan investment from overseas—especially in raisins—and the companies tend to locate their plants on their own properties.

The infrastructure for food and beverage processing requires a substantial initial investment, (an average US\$5.8 million among surveyed companies), but has the potential for attractive first-entrant rewards (US\$13 million average yearly income).

### **Motivation**

5 of 7 companies said that cost was about 50% of their reason for locating in Afghanistan; important cost factors were real estate and construction. The most important quality factors were general business environment (political stability and lower bureaucracy) and access to and size of the market, which means access to cheap raw materials to the fruit and nut producers and size of the domestic market to other surveyed companies.

### **Inputs**

Many inputs are imported, except the fruits and water used in production.

### **Trade Access**

Afghanistan's lack of a seaport was mentioned as an advantage for import substituting industries, because importers of competing products incur higher transport costs.

### **Incentives**

Some companies reported a 5-year tax holiday or subsidies for land purchases.

### **Costs**

Among the surveyed firms, most major operating costs could be captured in four categories to create a representative average cost structure: 35% property; 25% labor; 30% utilities; 10% annualized construction costs. (Transportation costs are excluded due to firms' current domestic market focus and limited exports.)

### **Personnel**

Investors report an abundant pool of available unskilled workers, and to a certain extent, skilled workers.

Investors report an average 51-hour workweek.

### **Utilities and Telecommunications**

2 of 7 interviewed companies have public electric power, but they also rely on a generator an average of 155 hours per month. Most do not yet have a telecom landline or internet access.