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Afghan Competitiveness for Job Creation: Agricultural Value Chains

Summary Report



September 2015

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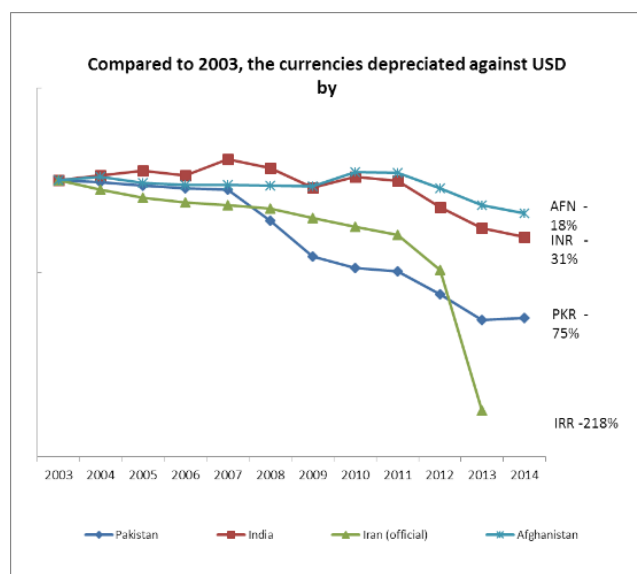
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The Strategic Vision of the Government of the Islamic Republic of Afghanistan (GoIRA) for the Transformation Decade espoused in the Realizing Self-Reliance paper highlights the centrality of private sector development and job creation as a meaningful outcome of economic growth for Afghans. However, when the competitiveness of the Afghan agriculture sector appears eroded against its major trading partners, there are doubts as to whether the decelerating Afghan economy can absorb the exploding supply of labour without realignment of its policies around competitiveness and jobs. Present study is expected to become a critical input to the strategic realignment of ongoing and planned interventions in Afghanistan in order to contribute more effectively to sustainable job creation through strategies for competitive agro value chains.

Agriculture which provides 44 per cent of employment plays a vital role in the Afghan economy. This study focuses on the agriculture value chains of grape, wheat, rice, tomato and potato in Afghanistan, but also on those in its major regional trading partners - Pakistan and the Islamic Republic of Iran. It examines whether the Afghanistan can remain competitive in these sectors in the light of adverse trade and currency conditions, and how the relative competitiveness would impact on the employment outcomes.

Besides the review of available statistics and literature, more than 1,300 were interviewed in the three countries ranging from input suppliers, farmers, processors to wholesalers, retailers and importers/exporters along the value chains as well as the providers of support services. The Afghanistan component explored one additional dimension – farm households (HHs) - to explore their financial management, income portfolio, education and labour mobility.

It was observed that drastic depreciation of currencies of the neighbouring countries has made future of Afghanistan's agriculture uncertain. These changes have also negatively affected the price of key production factors – such as energy, fertilizers and labour. The trade data of the three countries clearly shows the magnitude of its impact. In the 2002-12 period, Afghanistan's imports increased four-fold, particularly in the area of products in which it was



previously competitive. Its exports remained sluggish, further widening the trade deficits of Afghanistan. Meanwhile, Pakistan's exports doubled, and those of Iran tripled.

Comparison of energy price changes

Country	Energy product	Price per litre in local currency		Price per litre in USD	
		2007	2012	2007	2012
Afghanistan	Petrol	39 Afs	63 Afs	0.78	1.24
	Diesel	36 Afs	61 Afs	0.72	1.20
	Gas	40 Afs	65 Afs	0.80	1.28
Pakistan	Petrol	54 PKR	99 PKR	0.89	1.06
	Diesel	38 PKR	106 PKR	0.63	1.13
	Gas	34 PKR	74 PKR	0.56	0.79
Iran	Petrol	1,000 IRR	4,000 IRR	0.11	0.20
	Diesel	165 IRR	1,500 IRR	0.02	0.07
	Gas	30.8 IRR	1,800 IRR	0.003	0.09

Comparison of fertilizer prices

Country	Fertilizer	Price in local currency		Price in USD	
		2007	2012	2007	2012
Afghanistan	Urea	12 Afs	25 Afs	0.24	0.49
	DAP (Phosphate)	24 Afs	50 Afs	0.48	0.98
Pakistan	Urea	17 PKR	35 PKR	0.28	0.37
	DAP (Phosphate)	38 PKR	80 PKR	0.63	0.86
Iran	Urea	500 IRR	3,000 IRR	0.05	0.14
	DAP (Phosphate)	700 IRR	5,000 IRR	0.08	0.24

Comparison of wage rates

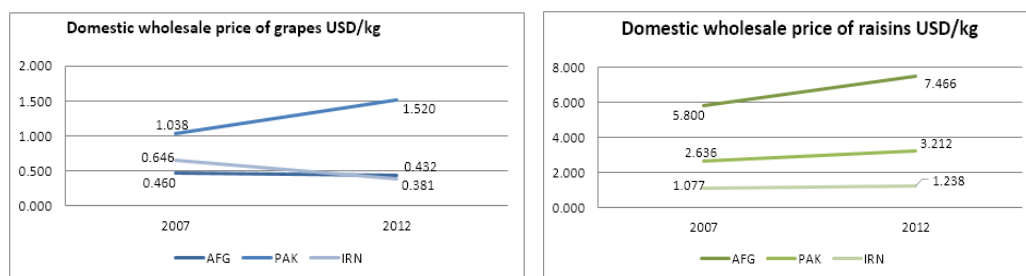
Country	Wages in local currency		Wages in USD	
	2007	2012	2007	2012
Afghanistan	200 Afs	350 Afs	4.00	6.87
Pakistan	185 PKR	310 PKR	3.05	3.32
Iran	120,000 IRR	270,000 IRR	12.82	12.86

The main thrust of the report deals with the competitiveness situation (erosion and gains) in the five sectors under review. The study found that, with the exception of the raisins sector, the selected agricultural sectors in Afghanistan suffered from a loss of competitiveness vis-à-vis those of Pakistan and/or Iran during the 2007-12 period: where Afghanistan's lowest price was caught up by a competitor in rice and tomato sectors, and Afghanistan completely lost price competitiveness in wheat and potato sectors. This would have direct impact on trade given Afghanistan's highly liberal tariff regime.

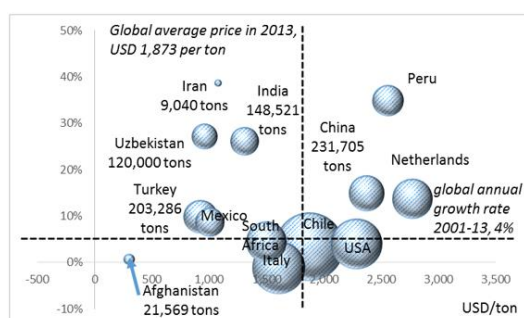
- **GRAPE/RAISIN – Afghan grapes’ price competitiveness challenged while its raisin not price competitive but competing by quality:**

Grape is the most popular crop grown on garden plots in Afghanistan. The sector maintains an estimated 1.3 million employment across the value chain including 173,000 farm households. Grape commands the highest income per unit of land (USD 806 per jerib) along with tomato.

Afghan grapes’ low price were caught up by the Iranian grape while Pakistan kept losing its price competitiveness. Afghan raisins were more expensive than those of Iran and Pakistan, and the price gap widened further. Presently, Iran enjoys the lowest price of both grapes (near parity with Afghanistan) and raisins among the three countries.

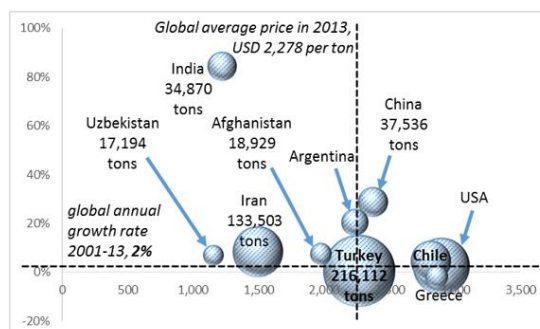


In the regional market, China, Turkey, India and Uzbekistan are one of the largest exporters of grapes. Regional exporters are even better positioned in the raisins market where Turkey is the global top exporter, Iran the third, followed by others



within to top 10 exporters such as China, India, Afghanistan and Uzbekistan. In the highly competitive regional market, Afghan grapes’ growth potential would be limited unless it establish a cold chain. The regional raisins market is even more competitive, but

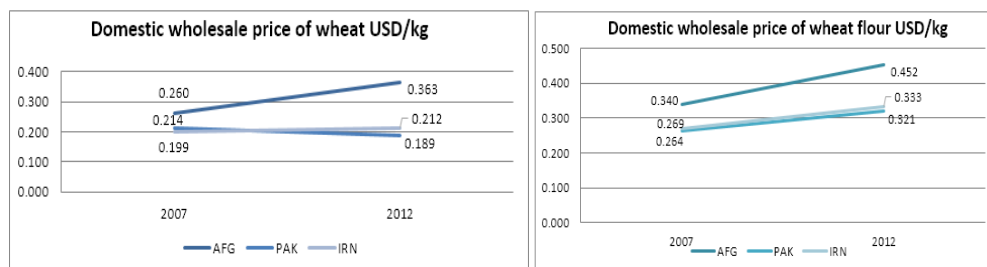
Afghanistan would be better off by focusing on the high end market and avoid a price war with other lower priced neighbours. Several raisins exporters have been successful in penetrating the high end European



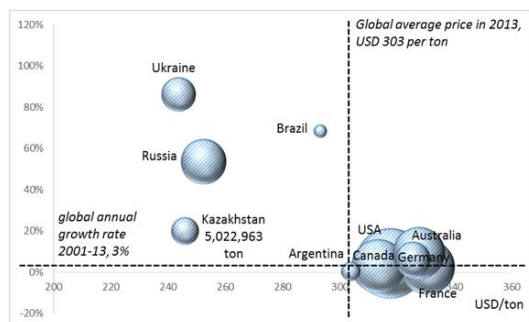
market and growing well while others exporting to price sensitive markets such as Russia suffered from increasing competition from the low price exporters such as Iran. Pulled by the demand for raisins, Afghan farmers have expanded the production of grapes.

- **WHEAT – Afghanistan losing its price competitiveness further:**

Wheat is the most widely cultivated crop in Afghanistan, supporting food security and farm income of nearly 47 per cent of the total households (1.8 million farm households). The wheat value chain as a whole is estimated to employ 8.9 million people. However, it provides the lowest income per unit of land among the five crops studied (USD 148 per jerib in 2012).

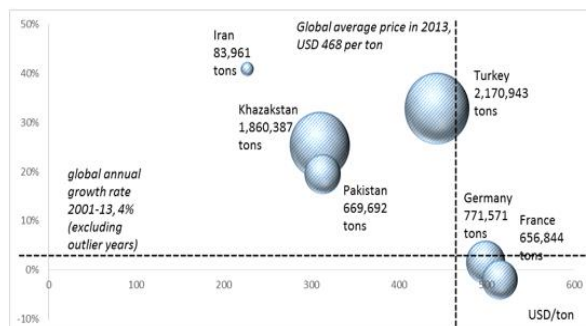


Afghan wheat was the most expensive among the three countries in 2007 and the price gap widened further by 2012 when Pakistani wheat took over the price leader position from Iran. The wheat flour sector demonstrated a similar pattern, except that Pakistan remained the price leader throughout the period while Iran followed neck to neck. Both wheat and wheat flour exports from Pakistan to Afghanistan are on the increase, most of its exports come in the form of flour. Afghanistan is also increasing imports from Kazakhstan.



average price. This may provide opportunities to achieve food security through establishing a

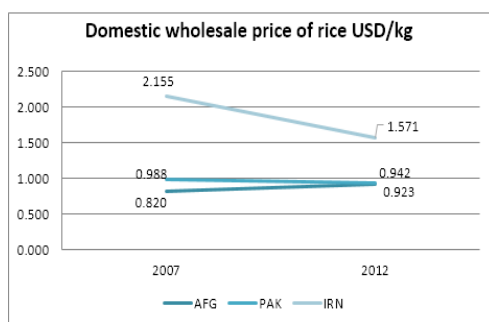
Afghanistan is surrounded by the top global wheat flour exporters such as Turkey, Kazakhstan and Pakistan that grow fast with their lower than global



balanced import portfolio and a reasonable grain reserve rather than promoting costly domestic production.

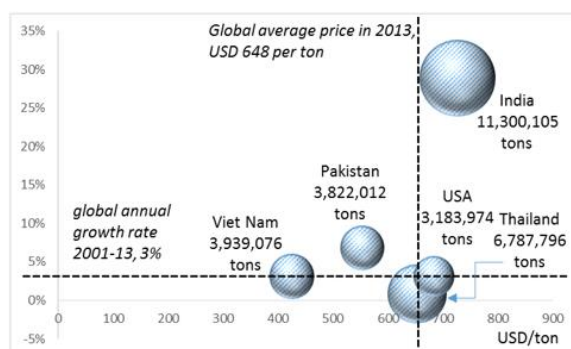
- **RICE – Afghanistan’s price competitiveness challenged:**

Rice is the sixth most important crop in Afghanistan in terms of production volume. The proportion of households growing rice is limited to three per cent of households (approximately 98,000 farm households), but the whole value chain provides jobs to



502,000 individuals. The income per unit of land of rice is the second lowest among the five crops (USD 307 per jerib). The study compared the competitiveness of the commercial segment represented by the Sela (parboiled) long-grain varieties, but Afghanistan also has a localized rural consumer segment of short-grain varieties.

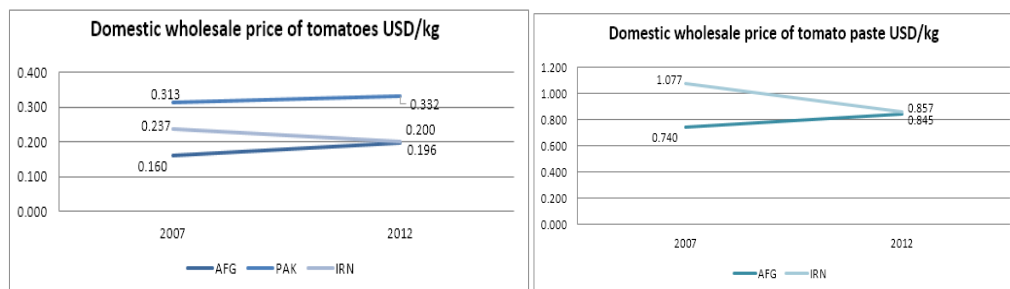
In 2007, Afghan rice was the most price-competitive among the three countries, but it reached parity with Pakistani rice in 2012. Afghanistan imports a significant amount of Pakistani Sela, but the local Sela remains price competitive in the domestic market.



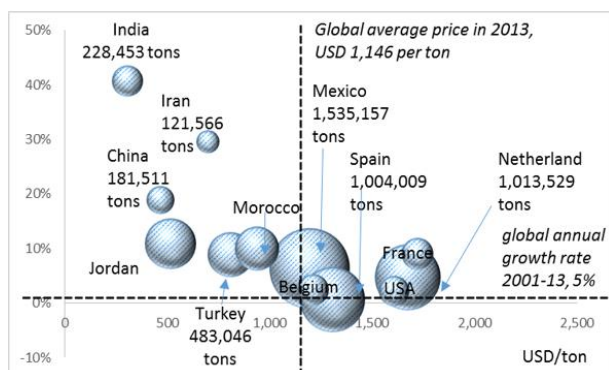
India, Thailand, Viet Nam, Pakistan and USA are the top rice exporters. Pakistan may be a low priced exporter on average, but is losing its important high quality Basmati market against India and other Asian top exporters. Iran is one of the top rice importing countries in the world, and its import amount is on the rise along with other Middle East countries. While the latter offers opportunities for all the rice producing countries, it is going to be tougher for Afghanistan to compete against the Asian export powerhouses without any price advantages.

- **TOMATO – Afghanistan’s price competitiveness challenged:**

Tomato is tenth most important crop in Afghanistan in terms of production volume. It is estimated that 214,000 are employed in the tomato value chain including 38,000 farm households growing tomato. Tomato commands the highest income per unit of land (USD 800 per jerib) along with grape.



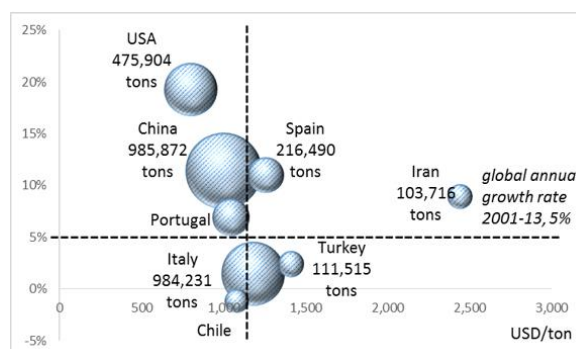
In 2007, Afghan fresh tomatoes were the most price-competitive among the three countries, but the price reached parity with Iranian tomatoes in 2012. Tomato paste followed the same pattern. As yet, Afghan tomato paste has been unable to compete well in the domestic market in terms of quality. The Iranian exports of tomato and its derived products to Afghanistan shows a growth overall.



Turkey and Iran are among the group of emerging economies that grow faster than the present market leaders of fresh/chilled tomato exports. Turkey and Iran are also one of the major exporters of tomato paste and dominate the regional market. Under the present market situation, room for further import substitution of tomato paste

remains small. With limited opportunities to expand value chain linkage to tomato processing, the future of Afghan tomato farmers will be bleak.

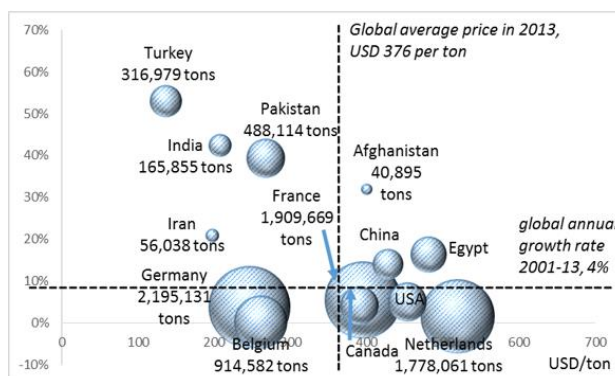
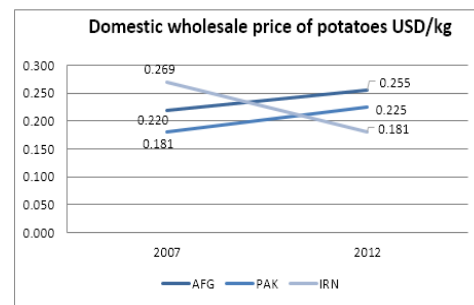
- **POTATO – Afghanistan losing price competitiveness further:**



Potato is the fourth largest product in Afghanistan after wheat, maize/sorghum and fodder in terms of production volume. The sector provides employment to an estimated 1 million individuals across the value chain including 195,000 farm

households. Potato's income per unit of land is in the middle among the five crops (USD 406 per jerib).

In 2007, Afghan potatoes were second in terms of price competitiveness after Pakistan, despite the fact that they have a different seasonality and crop variations. However, the price for Afghan potatoes kept rising, during the 2007-12 period, while the rapid price decline made Iran a clear



price leader by 2012. As a result, Afghanistan's trade gap of potato with Pakistan and Iran continued widening.

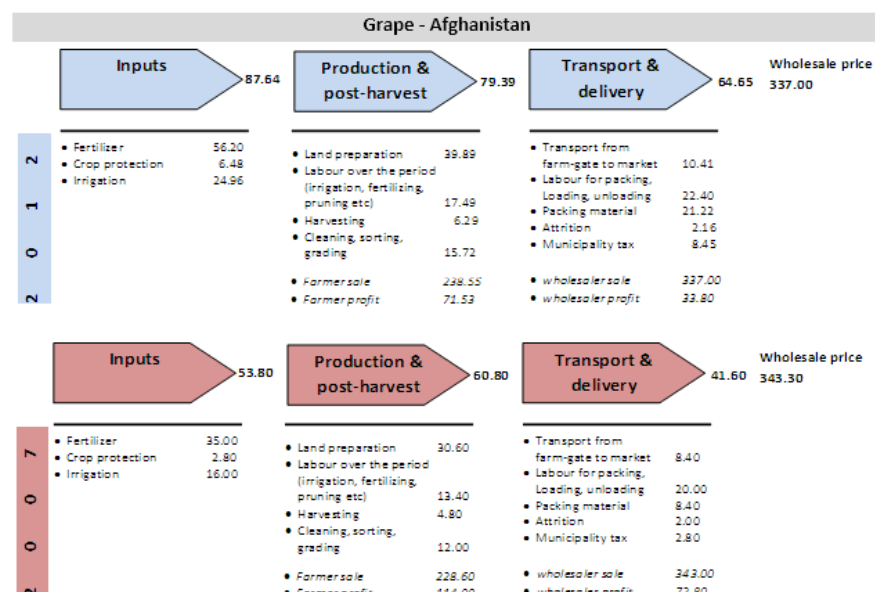
There are many countries in the region which are strong in the global export market such as Pakistan, Turkey, China, India and Iran, many of which with high growth rates fueled by their lower price

than that of global average. Afghan potato exports grew fast as well, but its export volume was far smaller than other exporters. With the price moving towards higher end among the regional competitors, the future of Afghan potato sector becomes bleak.

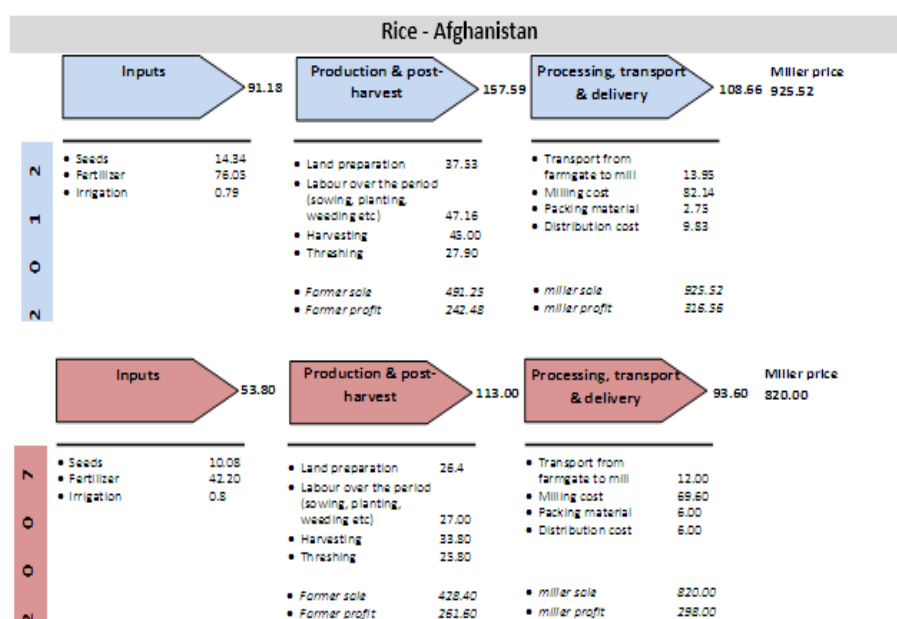
The eroding price competitiveness of the Afghanistan's agricultural value chains under review is also reflected in

the declining profits of both farmers and processors, and the job prospects are bleak in general.

This would have had a negative impact on the income of commercial farm



households where the main source of income is agriculture, but they are also more capable of absorbing the shrinking profits of one crop within their larger crop portfolio. The financial impact on semi-commercial



farmers and subsistence farmers has probably been limited in the sense that they rely more on non-farm income. In both cases, however, the declining farmers' profits would have contributed towards accelerating labour migration and deteriorating security situation.

The eroding competitiveness of the key agriculture value chains might not have been obvious to policy-makers and the general public until now because: a) Afghan agricultural products often remain price-competitive in the domestic market due to the additional costs added to imported products; b) the harvesting cycle is different across the countries, avoiding direct competition; c) policy-makers were not able to monitor shifting competitiveness and its employment impact properly due to the incomplete statistical system; and d) scarce attention has been paid to the competitiveness-jobs nexus by the international community.

The Afghan agricultural sector in general suffers from a higher cost of production than that of Pakistan, and this gap has been widening - while Iran's agro products have become price-competitive despite the high cost of production factors. Fertilizers and farm labour accounted for the two key cost elements that resulted in the eroded price competitiveness of Afghanistan's products in four out of the five value chains.

The drastic and continuous depreciation of the currencies of Pakistan and Iran correlates with the widening trade gap between Afghanistan and these countries, including in the area of key agricultural products. On the other hand, the subsidies of Pakistan and Iran do not seem to have decisive impacts on the relative competitiveness of the value chains studied.

Recommendations:

The findings of the study indicate the need to address a number of broad policy and strategic issues to deal with the structural constraints of a high-cost landlocked country with an adversarial currency and trade situation without sufficient data – before discussing sub-sectoral development measures. It should be noted that the Recommendations listed here do not include the basic measures already being taken, such as improvements to the transport network and customs operations. Neither do they touch on negotiations on trade and transit agreements. The intention here is to provide a fresh look at missing links for policy coherence.

- Address the production factor costs across the board.
- Consider readjustments of the import tariffs and, if needed, emergency safeguard measures.
- Be selective on the priority sectors and turnaround strategies.
- Address the data gap to be able to capture early signals of the critical situation of the sector and coordinate policies across the board.
- Differentiate measures to support commercial farmers from those of subsistence or semi-commercial agricultural farmers.

Having said the above, there are measures that operational programmes could address at the value chain level in the short term. As previously mentioned, it might be expected, with proper strategies, that the raisins sector could generate approximately 20,000 full-time equivalent jobs in the sector. The following Recommendations are crafted on the basis of the latest thinking of private sector development (PSD) facilitation shared among the lead technical agencies of PSD around the world. These must be viewed as strategic guidance rather than being prescriptive – indeed, the prevalence of “cookie-cutter” prescriptive solutions supported by external assistance in Afghanistan have kept failing and have generated wide-spread skepticism among the national stakeholders from the central government to provincial entities. The importance of making right strategic choices cannot be overemphasized.

- **Replicate the success of market penetration by addressing value chain pressure points:** e.g., accelerating customs and phytosanitary procedures; establishing cold chains; supporting certification and compliance of export regulations of the high end markets; assisting participation at international trade fairs;
- **Let the lead firms grow with decent work without exploiting the power imbalance:** e.g., help lead export firms comply with the international social and environmental standards.

- **Replicate the proven productivity gains through market facilitation:** e.g., demonstration and dissemination of successful cases in trellising and improved seeds.
- **Promote productivity with occupational safety and health (OSH):** e.g., introduce low-cost OSH measures in crate-making factories and the processing of raisins where workers handle chemicals with their bare hands.
- **Explore low cost delivery mechanisms of the agriculture extension services:** e.g., delivering agriculture extension services through voice message, SMS-based text, smartphone apps and web-based knowledge resources.
- **Improve financial literacy of farmers:** e.g., proven financial literacy programmes can overcome the irrational behavior of farmers such as the reduced application of fertilizer in order to cut the increasing cost of fertilizer, help farmer move out of over-indebtedness.

For details of the analyses and recommendations, please see the final report of the study

