

Investment Opportunities in Afghanistan

Agriculture Sector in Afghanistan

Afghanistan has a strong capacity in agriculture and is famous for being the most fit for it due to its geo-economical location. The country has 7.8 million hectares of agricultural land (only 50 percent is being used), 1.9 million hectares of natural forest, and 30 million natural grazing lands. Being a mountainous country, Afghanistan is very rich in water reserves which is a critical necessity of agriculture with over 200 small and big rivers flowing from the vase chain mountains all over the country adding up to 75 billion cubic meters of potable water. Afghanistan's agricultural products are the second most profitable export for the country which medical plants constitute the most part of it. There are approximately 1 million farms in Afghanistan and more than 2,000 wholesalers for horticulture products. 4 Products are brought directly from the farms to five major wholesale markets located in Kabul, Mazar-e-Sharif, Kandahar, Heart and Jalalabad. Between farmers and wholesalers, there are thousands more employed as middle-men.

There has not been remarkable investment in the agriculture sector in Afghanistan that has made the sector still unexplored. For instance, the agro-farms in Kabul or the stocks in Herat and other provinces are not able to accommodate the vast current demand in the sector, which itself indicates the need for more business and investment in this sector. Moreover, the country still lacks the ability to standardize producing most of its agricultural products such as fruits, vegetables, and seedless pomegranate, 64 types of grapes, and pine nuts (that are special products to the country). Considering the insufficient investment in the agriculture sector in Afghanistan, the sector has a high potential for further investment to meet the increasing demand, utilize the existing unused resources, and become more profitable.

One industry related to the Agriculture sector is for example packaging which provides great opportunities for investors, as demand for Afghan agriculture goods is high, but current packaging procedures are outdated. Some 20-40 percent of post-harvest horticulture products are wasted because of poor packaging. Processing is another great investment opportunity. Market potential for processed agricultural products including snack foods, packaged biscuits, fruits concentrates, pickles and fresh fruit jams both in Afghanistan and in the region is enormous. Domestic production of machinery related to the agro-business and agro-processing industries is a lucrative

opportunity for investors given that current equipment in Afghanistan is currently imported from abroad. In the long term, the manufacture of local machinery will be profitable to the agriculture industry.

The Government of Afghanistan has recently made more efforts to encourage further investment in the agriculture sector by alleviating the investment challenges and providing more privileges to the investors in this sector.

1.1. Investment Opportunity in Dairy Industry

Investment opportunities exist in the following areas:

- Milk processing
- Manufacture of cheese, butter, yogurt, milk powder, ice cream, and other dairy

Scale of operations: Small, medium & large scale production potential

Market: Mass & niche dairy product markets, both domestically & internationally

Potential (Underserved market) Domestic market:

- National Market: 39 million people
- Kabul City market: 7-9 million and growing at over 7% per year;
- Domestic consumption rates (pre-war) 60kg of milk per person per year average;
- A potential domestic market of 1.92 billion kg of milk annually.

Local Advantage: Afghanistan boasts both a favorable climate, and long experience in animal husbandry, resulting in impressive production potential. Additionally, investors can expect, full government support, minimal government regulation, and expedited procedure to start a business. The domestic market itself is still in its infancy though growing rapidly and so offers great potential for early entrants.

Location Advantage: Afghanistan is centrally located in the heart of Central Asia within close proximity to major markets such as China and India and regional markets in the Central Asian republics, Pakistan and Iran.

Production Advantage:

- Growth: Milk production is increasing by 3,200 hectoliters per year.

1.2. Investment Opportunity in Honey Industry

Investment opportunities exist in the following areas:

- Honey
- Honey products (food)
- Honey products (cosmetic)
- Propolis
- Bees Wax products

Scale of operations: Small (utilizing the Apis Cerana species) to large (utilizing the Apis mellifera species) scale production potential.

Market: Mass (honey) and niche (cosmetic, wax, processed food and Propolis) product markets, both domestically (honey) & internationally (all products).

Domestic Market: Domestic demand for honey is high, especially in Badakhshan and northern Afghanistan where the few beekeepers in the area fail to meet the demand. This is primarily a small scale activity that has the potential to provide a useful supplement to household incomes. It also provides a potential opportunity to use underutilized female labor in cash income activities. Afghanistan has a long tradition of honey production, particularly by women. There is high potential of honey production in all provinces of Afghanistan like Herat, Nangarhar, Mazar and other provinces of Afghanistan.

Export Market: The international market for honey is stable while the export potential for products derived from honey and related by products is growing rapidly.

Local Advantage: Afghanistan is a natural garden, flowers and fruit trees of all kinds abound. This provides an excellent habitat for bees and consequently makes for superior conditions for honey production.

Production Advantage: The diversity in habitats in the areas bordering the Hindu Kush mountains means that, flowering plants are available throughout the year. This is an exceptionally good region for beekeeping and harvests well above 30 kg per colony per year can be generated. Typically, an Afghan hive produces 20-30 kilos of honey per year.

1.3. Investment Opportunity in Sunflower Industry

Investment opportunities exist in the following areas:

- Sunflower Seeds
- Sunflower Oil
- Cosmetics
- Carrier Oils
- Bio-diesel
- Hypoallergenic Rubber
- Sunflower Meal

Scale of operations: Small, medium and large scale production potential

Market: Mass and niche sunflower seed products both domestically & internationally

Potential Market: There is demand for about 32 million sunflowers in the domestic market, and the demand is estimate to grow by 4% per year. Currently we are exporting about 7 million sunflowers to abroad and the demand is growing by over 7% per year. The growth rate in the sunflower industry is more than double that of agriculture as a whole. Annual increases in the global consumption of sunflower products include: China 29%, India 18%, Indonesia 8%, Pakistan 5% All of which show net imports of sunflower products well over 0.7 million tons each, annually.

Returns: Monetary Returns: Sunflower has had a more consistent profit than any other crop over the past 10 years. During that time, the profit per acre has been more than double that of spring wheat.

Local Advantage: The climate of Afghanistan is uniquely suited to growing vast quantities of sunflowers. Additionally, the fastest growing markets for sunflower products (China, India, Indonesia and Pakistan) can be found in the region. Additionally, investors can expect, full government support, minimal government regulation, and expedited procedure to start a business.

1.4. Investment Opportunity in Tomato and Tomato Paste Production

The tomatoes produced in Afghanistan go through five basic operations:

- Seedling production,
- Bed preparation,
- Transplantation,
- Weeding/fertilization/pesticide/irrigation and
- Harvesting.

Direct production of tomatoes from seed is rare in this region. Only two operations are generally mechanized, bed-preparation and pesticide. Mechanized irrigation is also rarely used. Small farmers use manual operation for the entire process.

Investment is needed in the following area:

- Processing of tomatoes to make ketchup, sauce, juice and paste: This is a viable project because of its significant demand particularly for juice and paste;
- Cold storage for tomato;
- Processing of tomatoes through sun-drying: This can be done through women entrepreneurs who are already trained and are in business. The sun drying process does not require much investment except for equipment for quality control, compliance of sanitary and hygienic codes, and packaging machinery. The packing is generally done using heat sealable polyethylene bags.

Potential Market: Tomato is something needed throughout Afghanistan, but since there is no storage and processing facilities in Afghanistan therefore Afghanistan is importing in other than summer session. There is high opportunities to produce millions of ton and fresh and tomato paste and capture a high share of the local, regional and international market.

1.5. Investment Opportunity in Sugar Beet Industry

Investment opportunities exist in the following areas:

- Sugar from Sugar Beets
- Sugar Beet syrup
- Betaine Production
- Uridine Production

- Bio-butanol from Sugar Beets
- Sugar beet production

Scale of operations: Small, medium and large scale production potential

Market: Mass market products both domestically & internationally in terms of sugar and syrup. There is International niche market potential with Betaine & Uridine production, as well as local niche market penetration with bio-butanol.

Potential Domestic Market: Afghanistan still imports sugar from abroad to meet the domestic demand. Growth in the consumer segment can be expected to grow in tandem with population growth, however on the commercial side, as the food processing industry ramps up the demand for sugar for that industry is expected to grow exponentially.

Returns: The retail price of sugar in Kabul markets is approximately 60cents/kg.

Local Advantage: The most important inputs required for sugar production, suitable agricultural land, water, coal and lime are available in plentiful supply in areas such as Baghlan. Additionally, investors can expect, full government support, minimal government regulation, and expedited procedure to start a business.

1.6. Investment Opportunity in Olive Industry

Investment opportunities exist in the following areas:

- Olive oil production
- Canned and jarred olives
- Premium preserved olive products like tapenades
- Cosmetic and health products

Scale of operations: Small and medium scale production potential

Market: Niche olive oil and other product markets, both domestically & internationally

Domestic Market: Per capita olive oil consumption averages 100 grams per year.

National Market: 39 million growing at 4% per year. Kabul City market: 7-9 million & growing at over 7% per year. Afghanistan was an exporter of olives to Russia in the 1980s.

Export Market: Europe and China offer the greatest potential for export markets and global demand has shown above average strength for the last 20 years. US demand is averaging a 20% year over year increase.

Location Advantage: Nangarhar, a province in eastern Afghanistan, was once home to over 5,000 hectares of olive orchards. The province was famous for its olives, and raw olives were once one of the largest agricultural industries in the country.

Production Advantage: Some years ago there was an annual production increase of 1,200 tones, although that has now ceased. Afghan olive trees average 30kg of olives per tree; and have an oil extraction rate of 15%.

1.7. Investment Opportunity in Cashmere Industry

Cashmere is the fine, down-like undercoat of the Cashmere goat. An estimated 90-95% of Afghan goats are cashmere-producing. Afghanistan is the third largest producer of raw (greasy) cashmere in the world, after China and Mongolia, however raw cashmere from Afghanistan is regarded as far inferior in quality to that of China or Mongolia. However, there is great potential to bring Afghan cashmere up to Mongolian quality.

Put very simply, the processes involved in producing cashmere are to collect the goat fleece, sort the fleece, usually by color and quality, wash and scour the fleece, and dehair the fleece. Dehairing is the process of separating the guard hair from the fine inner hair which is the cashmere. Half the weight of the fleece is lost during this stage. Dehairing is carried out using specialist machinery. Dehairers require a reliable supply of electricity at competitive prices. After dehairing the fiber is then spun into yarn and used for knitting or weaving.

Potential International Market: Cashmere has strong international demand. Returns for higher quality cashmere are good. Cashmere is a luxury good. The price is volatile and there is a premium paid for quality. The three basic factors that influence quality, and hence price, are thickness (Diameter is measured in micron count. Cashmere has a micron count of between 12 and 19), length of fiber, and color. The price paid for raw greasy cashmere will be influenced by these three factors. The value to purchasers of raw cashmere production will also be influenced by the expected proportion of cashmere that a given weight of raw cashmere is expected to yield. There are no enforceable international standards for cashmere and substitution is rife. Consumers requiring high

quality cashmere rely on purchasing products with trusted brand names such as Dunhill, J Crew, Prada, Loro Piana, Burberry.s, Dolce & Gabbana, and Ralph Lauren, that effectively guarantee the quality of the cashmere.

Returns: Cashmere production in Afghanistan has considerable potential for expansion, both in terms of quantity produced and in terms of quality. Quantity could conservatively be doubled while price per kilo obtained by the grower could be increased by about 25%. Raw cashmere collection is confined largely to the Western provinces of Herat, Farah, Ghor and Badghis. It has been estimated that only about 30% of the available raw fleeces are collected. If this is accurate, it means that production of raw greasy fleece could be increased by about 3 times its current level of about 1000MT.

Local Advantage: The average Afghan Cashmere goat produces about 250 grams of fiber. An estimated 90-95% of Afghan goats are cashmere-producing. Afghanistan is the third largest producer of raw (greasy) cashmere in the world, after China and Mongolia. The cashmere in Afghanistan is relatively good because of the environmental conditions - dry climate, harsh winter and substantial area for grazing. Raw cashmere collection is confined largely to the Western provinces of Herat, Farah, Ghor and Badghis. It has been estimated that only about 30% of the available raw fleeces are collected. This means that production of raw greasy fleece could be increased by about 3 times its current level of about 1000MT.

1.8. Investment Opportunity in Flower and Essence Industry

Investment opportunities exist in the following areas:

- Cut fresh flowers
- Potted fresh flowers
- Flower essences and extracts

Scale of operations: In Afghanistan there are growers producing flowers, largely for the domestic market. The industry currently operates in areas on the outskirts of large cities (e.g., Kabul). Current products are temperate climate flowers (roses, geraniums, fuchsias, pansies, petunias and temperate ground cover). They are produced without the use of artificial fertilizers in properties that are about ¼ acre in size. Most products, with the exception of roses, are grown in simple hot houses consisting of clear plastic stretched over steel frames. Roses are grown in

the open. Three crops can be obtained with the first crop immediately after the winter period. Some of the growers have been in the industry a considerable time. These long established growers usually own their land, whilst new entrants often rent land. A typical new entrant, who could rent about a quarter acre close to Kabul, could currently support a family of 5 plus a worker who received \$130 per month. The market would be entirely domestic. Flowers are traditionally in demand for celebrations, including weddings. The plots are watered using ground water delivered by hand pumps. The soil in the area used around Kabul has a high clay component which makes it ideal for roses. The picture below shows a small scale farm supporting a family of 14 operating on the outskirts of Kabul. The owner has been successfully operating the same plot for 50 years.

Market: Mass and niche fresh flower and flower essence markets, potential for export internationally especially European and Gulf markets.

Potential Domestic Market: Strong demand in major provincial centers. Used for celebrations such as weddings. To service the domestic market requires land close to large provincial centers and access to regular water supplies.

International Market: This has yet to be developed however there is some potential for export. Major problems are reliable transport services to Dubai, which is the regional hub for the flower trade and questions about whether flower traders could make the regular deliveries of produce necessary to justify dedicated air freight services.

Ministry of Agriculture, Irrigation and Livestock

Agriculture accounts for the source of livelihood of 80 percent of the country's population, and hence the Afghan Ministry of Agriculture is an institution that is continually trying to improve agriculture, increase yields, and crop farming.

The ministry launches programs in the fields of agriculture, livestock and horticulture to support the farmers, manage natural resources, and strengthen agricultural economics. Ministry of Agriculture's programs include promotion and introduction of higher-value economic crops, strengthening traditional products, identifying and publishing farm-tailored land technologies, boosting cooperative programs, agricultural economics, and export with marketing.

Terms & Conditions for the Companies Willing to Invest in Agriculture Sector in Afghanistan

Companies that are willing to operate in the agriculture, irrigation and livestock sector in Afghanistan need to prepare and present their business plan and request for a license from Ministry of Agriculture, Irrigation and Livestock.