

Critical Reflection

Following the KOFF Afghanistan roundtable on 3 October 2014

An Afghan exit strategy from aid-dependency: Private sector development in Afghanistan

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This paper is based on the presentations and discussions that took place on 3 October 2014 as part of the KOFF Roundtable on Afghanistan in Berne. It comprised of inputs by Hervé Berger, former ILO Representative and Senior Coordinator for Afghanistan and Can Deniz, Operations and Public Relations Manager at NOMADES Swiss Sàrl, a private company specialized in private sector development solutions in fragile environments.

Afghanistan at a crossroad

Afghanistan has recently witnessed a transfer of power and the formation of a new government of national unity. This has contributed to a sense of political momentum that could open a window of opportunity for a new approach to socio-economic stability based on sustainable local economic development in Afghanistan.

The international presence and assistance remains the main source of economic growth in Afghanistan. The total amount of aid for 2010/2011 amounted to approximately US\$15.7 billion, which is close to the overall GDP (US\$17.2 billion in 2010/2011). Only 350'000 individuals are employees of registered companies that generate approximately 3% of the Afghan GDP. The informal sector (including illicit activities) accounts for up to 90% of the total economic activity.

As the infusion of significant donor contributions is closely linked to the international presence in the country, political

and socio-economic stability is threatened by the announced troop draw-down by the end of 2014.

The closing down of Provincial Reconstruction Teams and diminishing international engagement in Afghanistan will most probably have a negative impact in terms of capacity and security of government agencies, donors and international organizations operating in Afghanistan. They will be less secure, less safe, and restricted in their movements even in the northern parts of Afghanistan. This is likely to impact support for the Afghan private sector as there will be less human and financial resources as well as less space for economic development initiatives.

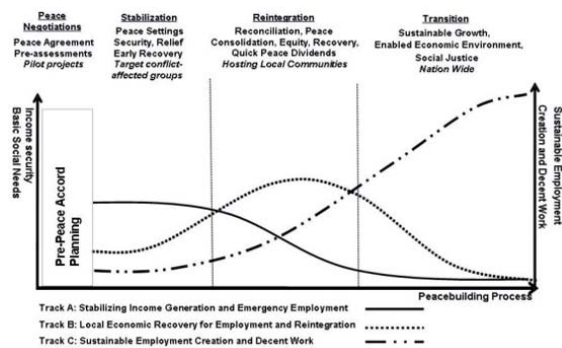
A decline in spending by international agencies and donors is already visible and will first affect the construction and security sectors. The construction of roads, bridges and buildings have already reduced significantly over the last few years. Many Afghans securing international infrastructure and protecting transportation of goods will lose their jobs and an average of 5 additional family members will be affected by this situation. The spending capacity in the local market will be significantly reduced further weakening the vulnerable Afghan economy.

The reduction of international assistance is raising major concerns regarding the labour market after 2014 with rising unemployment, brain drain and decreasing economic productivity. The lack of sustainable employment opportunities contributes to the

fragile and uncertain future for the country's economic, political and security transition. If no self-sustaining economic activity can be initiated, the level of vulnerability of many Afghans is likely to increase.

Emergency response for over a decade

Within the context of private sector development in fragile environments, the *United Nations Policy for post-conflict employment creation* lines out three main tracks of post-conflict employment programming (figure below).



Each track aims at a different peacebuilding phase and priority. All three tracks have an early start up with different intensities depending on timing and duration of the intervention responding to different situations. While Track A (emergency response) and B (local economic recovery) address the more urgent peacebuilding issues, Track C (sustainable employment generation) aims to support government capacities, strategies and policies to create a sustainable business enabling environment.

Over the past 13 years in Afghanistan, much efforts have been invested in Track A and C, while little has been done to foster local economic recovery and small and medium size enterprise development (Track B). The vast majority in economic development interventions until today are Track A programs that involve emergency responses and projects such as cash or food for work, mainly for infrastructure development such as buildings, roads or bridges that created quick employment opportunities that could contribute to rebuilding the country.

Significant efforts have been made at the Track C level as well by creating a business enabling environment through government policies and strategies, such as advising labor laws, financial laws, creating institutions such as the national bank, micro-finance institutions, capacity building programs for government agencies enabling them i.e. to develop and monitor labor law. These programs created an infrastructure that should support engagements on Track B for local economic development and sustainable job creation, i.e. by providing afghan entrepreneurs access to microcredits or building up management and financial skills.

However, there is still no strong private sector that could take advantage of this enabling environment. Many Track B interventions were assumed to foster private sector actors and to create sustainable employment, but were mostly based on poor local and regional market understandings. Value chain analyses and vocational trainings were conducted, conferences on business development and exhibitions were organized, or manufacturing factories in the neighboring countries were inspected. However, much of these efforts went in creating incompetent business activities that could only survive through sustained international funds. One (i.e. numerous carpet weaving projects for afghan women). Such interventions did not take into account the labor market in the country or its competitive relations to neighboring labor markets in Pakistan, Iran, China and Russia, who are becoming key actors in the Afghan economy and did not result in self-sustaining business activities.

Track A and C efforts started on a high level in terms of intensity, should have tackled down as the situation stabilized, but did not. Thus, much engagement and funds are still going into jobs that are able to exist only because of sustained international assistance. Efforts by the international community in Track A and C have not necessarily been effective in tackling the ground realities in the country. Serious efforts need to be made to also consider Track B, which would help to ensure that local producers, manufacturers, processors and service providers are able to sell their products and services while acting competitively in relation to neighbouring countries. By focusing on understanding the local and regional markets better, international actors would be

able to effectively target bottlenecks in local and regional value chains.

Challenges in the agriculture and food-processing sector

The Afghan economy mainly relies on the informal sector (including illicit activities), which accounts for 80 to 90% of the total economic activity. As over 60% of the employed workforce are in agriculture working in low-productivity (with the exception of poppy production) and subsistence-type production, the agriculture and related sectors such as the food and beverages processing sector provide promising entry points for more sustainable approaches.

However, many challenges remain and continue to weaken economic competitiveness such as: poor irrigation systems or reliable power supply in remote rural areas; little access to reliable market data and information systems; loss of agricultural knowledge; poor agricultural practices; lack of appropriate storing, processing and packaging technologies and know-how, and; no coordination in rural development initiatives. Other factors such as the impacts of war, political instability and insecurity, the exploitation of the Afghan economic weakness by neighboring states, organized crime, corruption, drug trafficking, and dependency on international donors add to this difficult situation.

Even though much has been done in order to foster good agricultural practices in Afghanistan, there is still much potential for the agriculture sector. While production and export volumes of some competitive fresh and dried fruits have increased considerably, little has been done to locally add more value to these fresh crops through processing techniques in order to substitute imported beverages and foodstuff, generate more income and employment opportunities within the country.

The current situation is extremely challenging. During harvesting time, there are production surpluses that cannot be brought to markets in a timely manner and are lost due to the perishable characteristics of fresh crops. Regional traders from neighboring countries such as Pakistan and Iran can take advantage of this situation by purchasing large volumes of

agricultural products to favorable prices, storing them in cooled storages in their home countries only to re-export them to Afghanistan after the main season to much higher prices. As Afghanistan lacks simple facilities and technologies, it is not able to generate this kind of added value within the country. Accordingly, Afghanistan is obliged to import more than 90% of processed beverages and foodstuff for its domestic consumption, while at the same time, there are up to 50% post-harvest losses due to, poor pest management and post-harvest handling, lack of appropriate packaging and transportation means, cooled storages or processing techniques.

There are some few cases of investment in food and beverages processing factories in Afghanistan. However, the technologies applied are either not adapted to the Afghan environment or of very low quality. Examples for the former cases are some modern factories with high industrial processing capacities that are not able to obtain the necessary volumes of raw materials to utilize the full processing capacity of their installations. Insecure transportation routes, damaged roads or poor packaging means there are, for example, restrictions on the continuous supply of large quantities of raw materials to the processing sites that are mainly based in large cities. Thus, some of these factories run below their optimal production capacity, operate inefficiently and are in the worst case not viable.

Examples for the consequences of investments in low-quality processing or packaging technologies are contaminated and thus not marketable food-stuff or disruptions of production cycles. Engagements with food-processors show that many cheap processing technologies are not suited for professional 24-hour usage and thus not commercially competitive in the long-term. Very often, the importance of maintenance and reliable after-sales services and technical assistance with spare and wear parts are underestimated. Consequences are production downtimes and poor product quality that threaten the viability of initially promising business ideas.

While challenges such as political instability and lack of international coordination can only be overcome by immense efforts, a pragmatic approach to good agricultural practices and the development of a competitive food-processing

and packaging industry through knowledge and technology transfer can help overcome some technical challenges.

Opportunities in the agriculture sector

A glance at the past reveals potential entry points. In the 1960s, there were several agricultural development programs of the Afghan government especially in Helmand that resulted in a well performing agriculture sector. Helmand then was also called „little America“ due to its successful agricultural performance and Afghanistan was an important actor i.e. in the global dried fruits market. The main reason for this at that time were government policies that provided necessary infrastructure and inputs for agricultural production and guaranteed the farmers to buy their crops during harvesting season.

This is the very same approach that organized drug traffickers are taking today. The fact that over 90% of world demand for opium is covered by Afghan opium proves their ability to perform successfully. The traffickers do so by providing poppy seeds and all necessary inputs to the farmers to produce poppy without large investments. While delivering these products and services, the drug traders guarantee to purchase the fresh poppy during harvesting time to market prices while deducting the cost of the inputs provided at the beginning of production season. This approach provides the farmers first the possibility to start production with very little investment and second enables them to control risk by ensuring them a demand and certain income.

The harmful effects of illicit drugs, organized crime and corruption on Afghanistan and its people cannot be underestimated and it is of utmost importance to provide alternative livelihoods to afghan farmers. In order to reduce the reliance on illicit poppy trade, it is crucial for other licit crops to provide farmers with a similar level of production and marketing security. For example, investments into vegetables and fruits that could be processed into higher value finished products could create competition with poppy and thus generate higher income and support a move away from the illicit crop.

Higher production volumes as well as post-harvest losses could be taken advantage of by investing in modern and food-safe processing and packaging techniques for fresh perishable crops. This would allow to avoid food waste, make perishable crops more durable and nutritious, add more value to locally produced crops and generate more income and employment opportunities. This could result in enhanced labor capacities and establish a strong food processing sector that can compete on a regional level.

There are opportunities to provide more cost-effective and competitive approaches to foster food processing activities such as bringing smaller processing plants closer to the production sites. Establishing agribusiness cooperatives or supporting SMEs in remote rural areas who could operate small and easy operatable processing plants would bring the technologies close to the raw materials and not vice versa. The local production of pasta, fruit and vegetable juices, marmalade, chutneys, coated nuts, cereal bars or alike could create a local demand for locally available wheat, vegetables, fruits and nuts. The food and beverage processors would be dependent on the production of local producers of fresh crops who on the other hand create a reliable local demand for Afghan farmer's production.

However, such processing technologies should be suited to the Afghan environment. Furthermore, investing in capacity building for Afghan entrepreneurs in food and beverage processing techniques is necessary as well. Here it is important that trainers have knowledge of the local Afghan context, their challenges and potential adaptable solutions. The 'band-aid' solution is unlikely to have a high yield for the sector in the long term.

Involving for example international manufacturing SMEs in private sector development efforts in Afghanistan could result in a win-win situation for all actors involved. Transfer of modern private sector expertise to afghan entrepreneurs could help support Afghan farmers to produce high-quality, more resistant crops of higher value that are demanded in local and regional markets. Local processors would be able to access professional know-how and high quality technologies that enable them to produce food-safe nutritious foodstuff and beverages. By cooperating with international manufacturing

SMEs specialized in agricultural and food processing technologies, international development actors could develop competitive business models and invest their funds in more sustainable results. International companies on the other hand would be enabled to control the risks in accessing markets in fragile environments that were not in their focus by coordinating their activities with local and international development actors. This kind of coordination among public and private sector actors could bring in much needed international private sector expertise. Development actors could ensure the conflict sensitivity of private sector interventions through their monitoring and evaluation expertise and ensure a socially, environmentally and economically sustainable development of the Afghan private sector.

Conclusions

The troop draw-down is likely to have both positive and negative repercussions on the Afghan economy. On the one side, it will be challenging for the economy to move away from aid dependency and towards an independent and competitive private sector. And on the other hand, it might pave the way for more sustainable, pragmatic and market driven approaches to private sector development.

A coordinated, socially and environmentally sustainable and pragmatic approach to the agriculture and food-processing sector can provide jobs for unemployed or underemployed individuals, ex-combatants or returning refugees, generate alternative livelihoods for poppy farmers, provide opportunities for the social and economic inclusion of women, help avoiding post-harvest losses, provide food

security and help substitute imported beverages and foodstuff.

There are already some promising joint public-private initiatives that combine international private sector expertise with conflict-sensitive, socially and environmentally responsible approaches of development actors and donor organizations while involving local entrepreneurs during the design phase of such an enterprise. Some of these efforts resulted in sustainable solutions Afghan farmers and entrepreneurs that are now able to expand their business activities into other sectors without external support.

Against the background of decreasing international assistance to Afghanistan, it is necessary to use the remaining time and resources wisely in order to provide motivated Afghan entrepreneurs an exit strategy from aid dependency.

NOMADES Swiss Sàrl

NOMADES Swiss is a private development company based in Switzerland that specializes in socially and environmentally responsible private sector development projects in fragile and post-conflict countries. NOMADES Swiss realizes value chain optimizations for male, female and young entrepreneurs in challenging environments through technology and knowledge transfer based on practice oriented research. Explicit company objectives are to avoid post-harvest losses, to add quality and value to local produce through food processing, to connect male and female entrepreneurs to local, regional and international markets and to generate income, employment and socio-economic development.

swisspeace

swisspeace is a practice-oriented peace research institute. It carries out research on violent conflicts and their peaceful transformation. The Foundation aims to build up Swiss and international organizations' civilian peacebuilding capacities by providing trainings, space for networking and exchange of experiences. It also shapes political and academic discourses on peace policy issues at the national and international level through publications, workshops and conferences. swisspeace therefore promotes knowledge transfer between researchers and practitioners. swisspeace was founded in 1988 as the Swiss Peace Foundation in order to promote independent peace research in Switzerland. Today the Foundation employs more than 40 staff members. Its most important donors are the Swiss Federal Department of Foreign Affairs, the Swiss National Science Foundation and the United Nations.

Center for Peacebuilding (KOFF)

The Center of Peacebuilding (KOFF) of the Swiss Peace Foundation swisspeace was founded in 2001 and is funded by the Swiss Federal Department of Foreign Affairs (FDFA) and 45 Swiss non-governmental organizations. The center's objective is to strengthen Swiss actors' capacities in civilian peacebuilding by providing information, training and consultancy services. KOFF acts as a networking platform fostering policy dialogue and processes of common learning through roundtables and workshops.

Critical reflections

In its *critical reflection* publications, swisspeace and its guest speakers critically reflect on topics addressed at roundtables. They both make a note of the arguments put forward during the roundtables and carry on the discussion in order to encourage further debates.