CASE STUDIES IN ENTERPRISE DEVELOPMENT IN POST-CONFLICT SITUATIONS

BOSNIA – PHILLIPINES – AFGHANISTAN

TECHNICAL BRIEF NO.4

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Abstract
This brief presents three examples of enterprise development in post-conflict environments: Bosnia, Philippines, and Afghanistan. Through these cases, the brief highlights critical factors that an enterprise needs to succeed in a post-conflict environment. While each post-conflict environment is unique, this brief also draws out commonalities across the three cases and suggests good first principles for donors and enterprise development practitioners when offering support to enterprises in a post-conflict environment. Specifically, a central theme across all three cases is the importance of risk mitigation for businesses in a post-conflict environment. This brief highlights strategies that businesses and enterprise development practitioners have used to successfully manage risk in post-conflict settings.

Front Cover Photo Caption
Mindanao fisherman paddles into harbor.

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Introduction

"To get enterprises moving more quickly, the circumstances of a post-conflict economy may generally justify going beyond the standard enabling environment prescriptions of removing impediments to the conduct of business, restoring market functions, and providing a secure, economically stable environment."

-- Excerpt from "A Guide to Economic Growth Program Planning in Post-Conflict Countries"

Context and Objectives for the Research

This research frames and analyzes enterprise development support activities in post-conflict countries based on research from the USAID/EGAT Business Growth Initiative (BGI). Three case studies on enterprise development in post-conflict economies are considered below. These cases identify the critical factors that an enterprise needs to succeed in a post-conflict environment. In addition, these cases highlight strategies for mitigating business risks in a post-conflict environment. Finally, commonalities and lessons learned on how to effectively catalyze business growth in a post-conflict environment are summarized.

With increased focus over the past decade on conflict and post-conflict relief and development activities, a body of research has begun to emerge around understanding the relief-to-investment continuum. Initial research and publications have focused on describing frameworks and approaches with limited access to in-depth examples and quantitative evidence of what works under certain post-conflict situations.

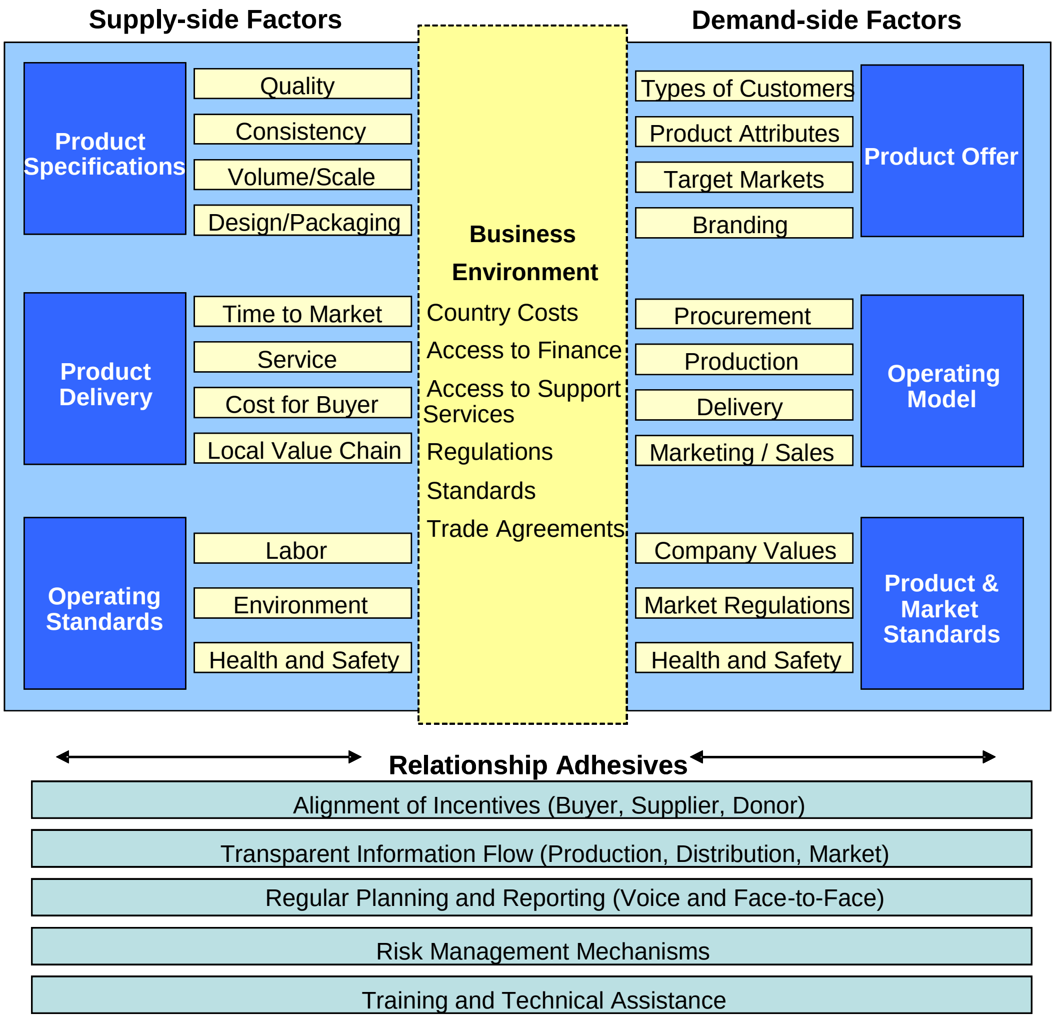
In addition, much of the post-conflict literature currently addresses at length the issues of rebuilding the "hardware" of an economy: public security, infrastructure, public services, macro-economic stability. Of course, ensuring that the society is secure and the economy is firmly grounded is essential to returning to normality. However, a sole focus on these issues may not be sufficient to bring a sense of normality back to the daily lives of the population. Sustained increases in employment and re-establishment of a diverse, robust market offering of goods and services are also critical to allowing the society to rebuild itself. Re-establishment of labor and goods markets requires the participation and the leadership of private enterprises. In addition, in a post-conflict environment, the benefits of enterprise development can extend into the rebuilding of social capital and cross-party networks in the economy. The USAID Post-Conflict Guide points out that successful programs "must be effective at opening up opportunities and increasing inclusiveness." Business often provides the first impetus for renewed social cohesion. Finally, enterprise development can be an effective way to open up public-private dialogue and re-establish linkages between the public and the private sector.

Many stories exist about enterprises that have succeeded under post-conflict conditions, but very few have been documented in a way that draws out the lessons learned. This brief seeks to begin to fill this gap and assist practitioners in:

1. Applying best practices in specific post-conflict conditions
2. Sequencing and integrating activities to achieve short and long-run objectives
3. Understanding the right roles for donors in a post-conflict situation

Framework and Approach

The framework for documenting the three cases in this brief is illustrated below and is an extension of the buyer-supplier framework presented in the BGI research on enterprise development, "The Ties that Bind: Case Studies in Making Buyer-Supplier Relationships Last." The framework includes the market and management parameters that determine the demand-side of enterprise development, the operational dimensions of the supply-side, and the business environment conditions within which these relationships take place. The closer the supply-chain can come to delivering value along each of the dimensions, the higher the likelihood that the market will respond with higher demand overtime. Though the top part of the figure is static, a supply-chain's ability to stay on top of shifting market needs largely depends on the transactional "adhesives." In a post-conflict setting, with a weakened business environment, the "adhesives" become critical to enterprise development, both on the firm and broader industry level. In the cases highlighted below, enterprises placed special emphasis in these adhesives.



Source: JE Austin Associates, 2007

Based on the framework above, five questions were posed in the conceptualization of this brief that have guided this work:

1. **What are the defining dimensions of the enterprise development environment in the post-conflict economy?**
    a. Physical and communications Infrastructure
    b. Availability of labor: unskilled and skilled (technical and management)
    c. Security
    d. Financial and insurance services
    e. Market linkages (internal and cross-border)
    f. Logistics
    g. Transactional security and liquidity (currency, contract enforcement)
    h. Government institutions
    i. Supporting institutions
    j. Related and supporting industries / services
    k. Availability of information to: price products, assess risk, find suppliers/buyers

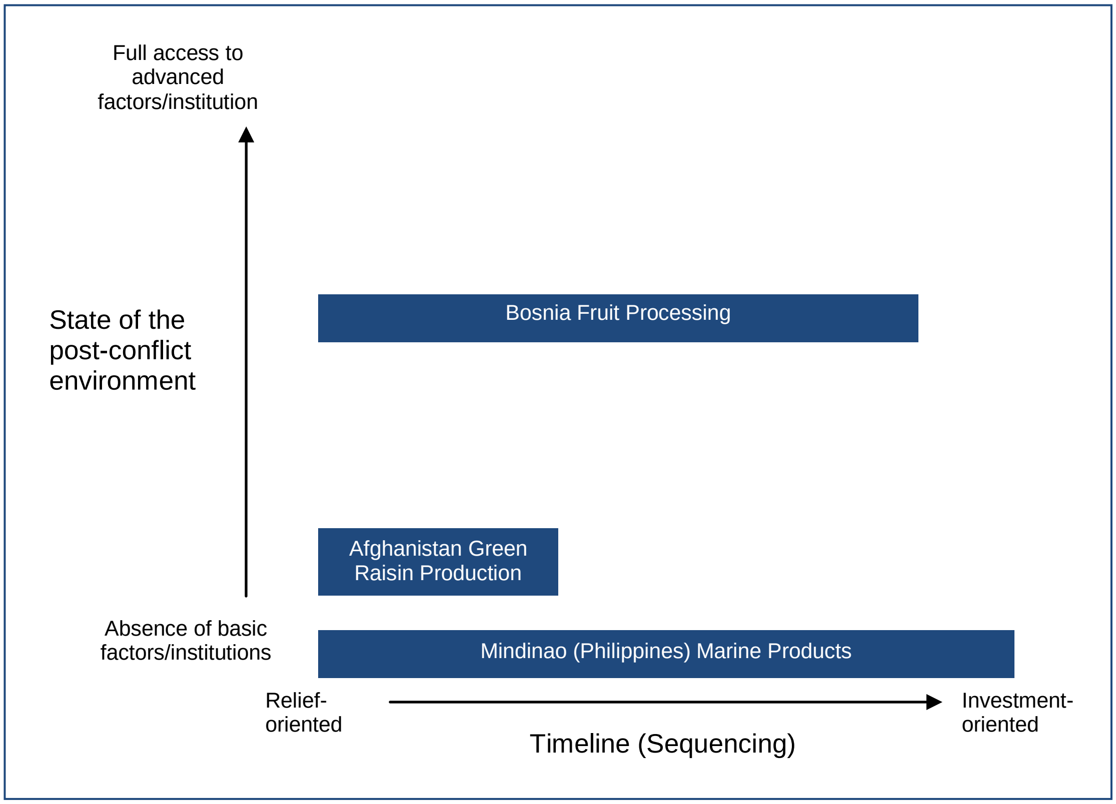
2. **Based on the unique characteristics of the post-conflict environment, what types of sequencing can have the highest impact for the environment and specific commercial relationships?**
    a. Trade off between short-term and long-term (create immediate jobs, but make sure the economy has flexibility to let entrepreneurs and enterprises refoot themselves and find their own way – either restarting a business or finding another activity)
    b. The effects of post-conflict may not appear immediately or all together. In fact the effects may unfold over many years:
        i. Social tensions
        ii. Trauma
        iii. Communications
        iv. Skills development
        v. Education gap and Workforce capacity (missing generation)
    c. There may be trigger points, e.g., the diasporas will come back only when certain conditions are in place

3. **The common post-conflict supply-side constraints for enterprise development include: availability of inputs and supply-chain management, logistics, and operations. What are the most effective strategies that can balance the trade-offs outlined above?**

4. **The common post-conflict demand-side constraints for creating sustainable linkages to domestic, regional and international markets include: route-to-market infrastructure, market information, communication, product specifications, compliance, standards. What are the most effective strategies that can balance the trade-offs outlined above?**

5. **In an uncertain post-conflict business environment, the success of a business depends on its ability to rebuild and manage its commercial relationships, often in the absence of a functioning contractual system. Does this imply a programmatic balance between stabilizing and rebuilding the business environment (long-term) and supporting enterprises in their day-to-day transactions (short-term)? If so, how?**

Three cases were selected that represent three different post-conflict environments with different post-conflict starting points and timelines spanning the relief-to-investment continuum.



The Cases

Bosnia: Vegafruit

In the midst of the Balkan War, two Bosnian-Muslim refugees from the Republic of Srpska started and built a fruit processing company, Vegafruit. In the postwar years, they built it into a regional supplier and a leading export firm to major international markets within ten years. This case details how the managers of Vegafruit navigated the in-conflict and post-conflict environment and overcame production and management issues such as broken supply chains, cross-border embargoes and market restrictions, ethnic conflict, and disadvantageous financing for refugees. By recognizing the immediate needs of the market, and re-establishing and restructuring the supply chains to meet those needs, Vegafruit seized the immediate market opportunity. As the basic conditions in the regional economy settled, Vegafruit management recognized the importance of flexibility in their business to adapt to the changing market needs.

Afghanistan: Raisins

In Afghanistan, an IFC project initiated in 2006 assisted green raisin farmers by introducing the latest drying techniques from neighboring Iran, increasing productivity nearly three-fold. The project has three primary goals: 1) to introduce new production technologies through training; 2) to work directly with the traders to encourage efficiency and quality; and 3) to assist traders in better understanding and connecting to export markets. Using the traders as its mobilization base, IFC established relationships with ten traders who worked with farmers and extension officers directly.

Together, they built the new drying houses, mobilized extension officer recruitment, and organized training activities for both the officers and the farmers. IFC evenly shared the salary cost of the extension officers with the traders and provided training to the extension officers that consisted of the use and application of alkaline solution, new harvesting techniques, hanging methods, and drying house construction.

Philippines: Growth with Equity

The Growth with Equity in Mindanao (GEM) Program has been USAID's "flagship" activity in Mindanao since 1996. The Program's objectives have been to accelerate economic growth in Mindanao and ensure that this growth benefits as many people as possible in the targeted areas. While USAID's activities in Mindanao cover the entire island, there is a concentration of effort in conflict affected areas – including the area affected by the Muslim separatist conflict, and, to a lesser extent, the area affected by the New People's Army (NPA) conflict. All activities carried out by USAID in Mindanao have the mutually-supportive objectives of consolidating and strengthening peace in Mindanao, and expanding economic opportunity for the people by expanding the participation of lower income groups (e.g., marginal farm/fishing families, small producer groups) in more productive enterprises by helping them gain access to more lucrative markets, increasing their returns from existing markets, and gaining employment in expanded agro-industrial sectors.

Emerging Principles and Lessons for Enterprise Development Support Activities

Each post-conflict situation is unique, making it hard to generalize notions of best practice. However, the cases below do highlight a number of principles for enterprise development in post-conflict situations that should be considered when designing enterprise development support activities in a post-conflict environment:

1. **Sequencing of overall private sector recovery activities is critical to the relief-to-investment continuum, but must be set based on the specifics of the post-conflict situation. Enterprise development should be considered as a core activity from the start.** Sequencing and timelines for reconstruction need to be grounded in the specific conditions. The length, nature, and impact of the conflict will be the driving determinants of how quickly the economy and its enterprises can re-establish themselves.

2. **Risk management is a driving factor of success for enterprises in a post-conflict environment. Viable post-conflict business models may have less emphasis on maximizing returns and more emphasis on diversifying and mitigating risk.** Operating in a post-conflict environment raises the operational and financial risks of business. In all three cases discussed below, the business models are structured around risk mitigation rather than achieving high growth and maximum returns. The ability of the businesses to diversify and mitigate the risk in the business environment (sourcing, financing, and end-market) was a key factor in their long-term success.

3. **Business models should fit the immediate conditions on the ground, but be flexible enough to anticipate and adapt to changing production and market conditions.** Unique post-conflict conditions will create new demand or distort previous market demand for goods and services. A local entrepreneur's knowledge of the business environment and ability to tap into social networks often positions the enterprise as the best suited to fill the immediate needs of the economy. However, as the society rebuilds itself, demand will shift and will require enterprises to be flexible in adapting to the changing needs of the market. As a result, the standard donor definition of enterprise viability/sustainability may not apply.

4. **Enterprises can be a powerful catalyst for rebuilding social capital in an economy.** With broken infrastructure and an uncertain policy environment, many post-conflict enterprises are forced to rely on their social capital to rebuild and do business. As a result, business can be a powerful catalyst in rebuilding relationships, networks and economic linkages through the economy that may have been broken during the conflict.

5. **Local management / entrepreneurs are best positioned to rebuild supply chains.** Given the recent focus on value chains among development practitioners, there may be a temptation for donors to play an active role in rebuilding broken chains. However, where experienced local management exists, it is best placed to rebuild the chains in a sustainable way. Market-makers, processors, and middle-men can be especially well-positioned increase supply-chain capacity and to manage the risks across the entire supply chain. Donors should limited enterprise development activities to supporting a friendly policy environment and assisting in scale-up financing and market expansion/diversification.

Areas of Future Research

This work is designed to be a point of departure for dialogue and debate. The three cases described below begin to raise issues and highlight best practice, but they are not conclusive in their recommendations. Additional thorough, well-documented cases are needed in this area to enlighten the role of the enterprise in post-conflict recovery as well as good practices in support enterprise development in a post-conflict environment.

In many ways, as a point of departure, this work has uncovered many more questions than it has answered. The following are among the questions to be further explored in additional research and cases:

- How should donors apply principles and good practices to different post-conflict conditions in a way that balances the urgency for getting enterprises going with the fragile social and political realities of the post-conflict environment?

- How should sequencing of support activities differ in different post-conflict conditions?

- Are there any characteristics that distinguish the entrepreneurs that are successful from those that fail in a post-conflict situation? Are they different from the characteristics of successful entrepreneurs in stable economies?

- What are the right roles for donors in assisting enterprises in mitigating the risks of a post-conflict situation?
    - Build capacity and financing
    - Market diversification
    - Rebuild and solidify the supplier network
    - Maintain a flexible business model

- How can a donor assist in developing mutual incentives to encourage the public and private sector actors to engage early and often across political/ethnic lines?

- What is the best technique for measuring the impact of the enterprise in a post-conflict situation? (Economic value, social value, political value)

Case Studies

Bosnia BGI Case Study (For Buyer-Supplier and/or Post-Conflict) “Vegafruit”

Overview

With a mild climate and widespread private ownership of farms, Yugoslavia was among Europe’s top suppliers of fresh and processed fruits. However, as the country’s communist party fractured along ethnic lines in the early 1990s Yugoslavia was host to a civil conflict which severed supply chains, displaced many of the country’s small farmers, and left agribusiness infrastructure in disarray.

Encompassing what are today Slovenia, Croatia, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia, as well as the new nation of Kosovo, Yugoslavia was a multiethnic communist state whose disintegration following the death of the country’s long-time leader, Josip Broz Tito, sparked a series of civil wars in the 1990s. From 1945 till his death in 1980, Tito presided over relative stability and economic growth that outpaced most communist bloc countries. However, in the years following Tito’s death, the country’s political agenda began to fracture along ethnic lines.

The country’s violent breakup began in the late 1980s as Slobodan Milošević, nationalist leader of the country’s largest ethno-political unit, Serbia, attempted to assert political and military primacy over regions within Serbia dominated by ethnic-minorities. In the wake of these tensions, Slovenia, the country’s wealthiest region, declared independence, followed soon thereafter by Croatia. In 1991, the wave of secessions reached the ethnically mixed region of Bosnia and Herzegovina. With a large ethnic Serbian population voting to remain in political union with Serbia, the region split and a bloody civil war ensued. During the war some two million Bosnians were driven from their homes.

After two years of limited NATO intervention, in July of 1995 international forces began a definitive bombing campaign against Bosnian-Serb forces. Late that year, the major combatant groups signed the Dayton Peace Agreement bringing a formal end to the war. NATO troops remained in Bosnia and Herzegovina as peacekeepers and the country received billions in international reconstruction aid.

Timeline of Bosnian Civil War

1992

- Bosnian Civil War begins. The ethnically mixed home base of Vegafruit’s founders, the Municipality of Dobroj, becomes the frontline of fighting between Serb and Bosnian-Muslim forces.
- Siege of Sarajevo begins.
- UN sanctions against the Former Yugoslavia sever supply chains.

1993

- Croatian forces become involved in civil war.
- Hyperinflation begins in Former Yugoslavia.

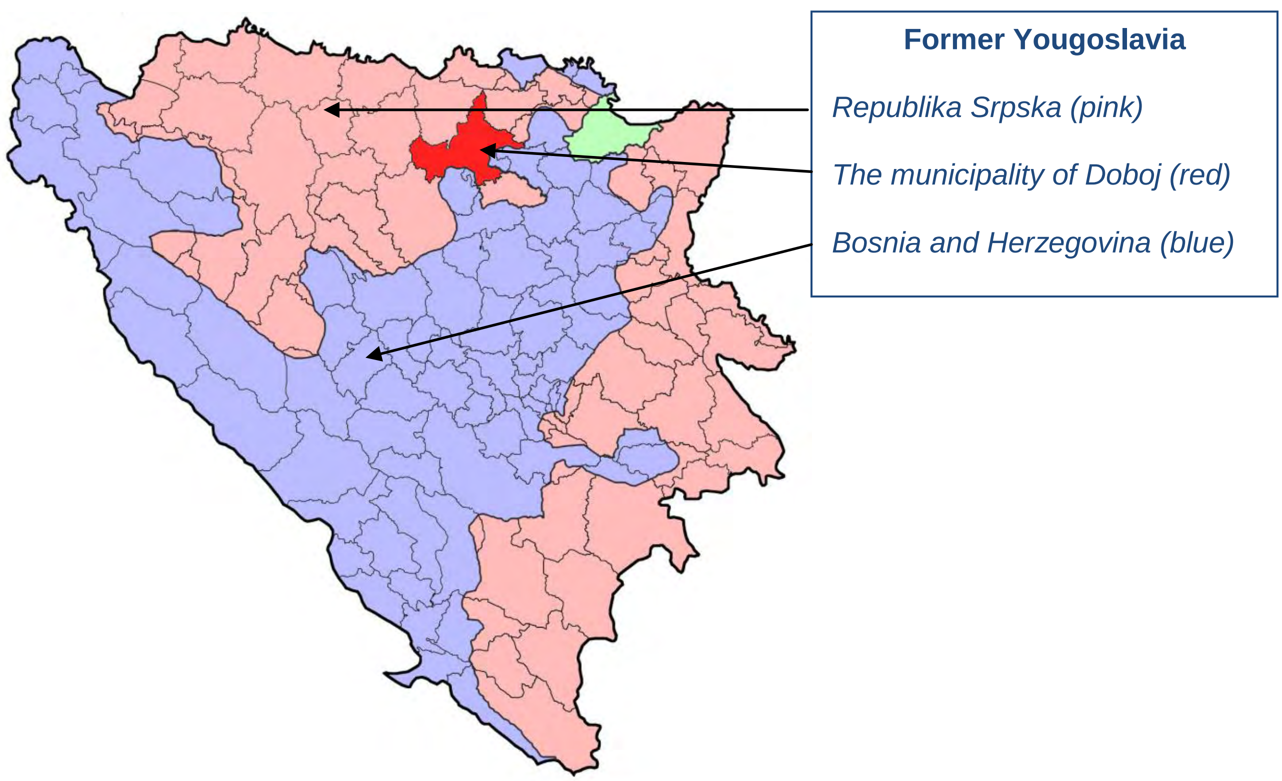
1994

- Vegafruit begins selling preserves.
- The United States help broker a peace treaty between Bosnian Muslim and Croat forces.

1995

- Srebernica massacre reported 8,000 Bosnian-Muslims killed.
- NATO begins bombing Bosnian-Serb military targets.
- Dayton Agreement signed in Paris. War in Bosnia and Herzegovina ends. Estimates place the Civil War's the death toll at 100,000 with another 2.5 million people internally displaced among the former republics.

In 1994, at the height of the Bosnian conflict, a group of Bosnian Muslim refugees, driven from the Doboj region of Republika Srpska (the Serbian dominated political entity within BiH), revived their fruit preserve business only 10 km from their pre-war home. Fadlic Salihbasic, co-founder of Vegafruit, remembers of the company's inauspicious start, "We were refugees. We had to make a living. So eventually we lit some fires in the open air, put some big pots on top and started doing what we knew how to do: making jam from dried plums. We were 300 meters from the frontline so we had to keep moving our operations." To turn a profit, co-founder Muharem Salihbasic, previously a manager of a successful state-owned (and later privatized) jam factory, tailored a familiar business model to a conflict setting.



Source: Estavisti - GNU Free Documentation

Vegafruit grew to be one of the region's top agribusinesses and a model for international intervention in the private sector. Sales of Vegafruit's jams and juices, pickles, baby food, and cultivated mushrooms increased at roughly 35 percent annually from 1995 until 1999. This growth was based on regionally sourced raw materials. To a degree unmatched by industry competitors, Vegafruit reinforced the company's community foundation by incubating a local supply base of high quality fruits and vegetables through input provision, purchase guarantees, and vertical integration. In many cases this effort entailed reaching out to growers across the ethnic fault lines.

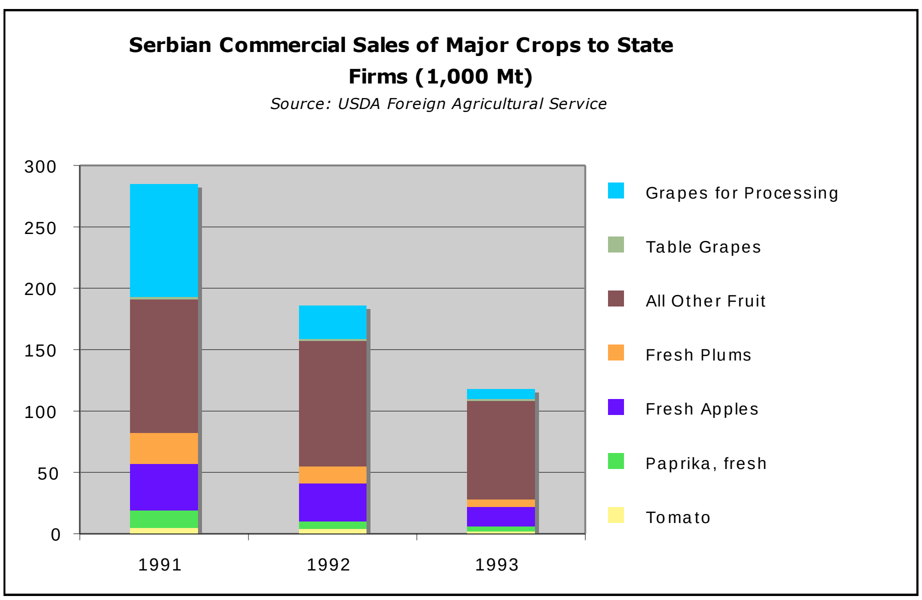
Led by veteran management, operating in a familiar business, Vegafruit parlayed early success in local procurement and sales into strong support from multiple international donors. The company used its donor support to invest in production lines with internationally recognized health and quality certification. Importantly, it exercised the same fiscal responsibility and stringent accounting in servicing those development loans as it did in paying local growers.

With strong credentials for international-quality management established early in the post-conflict period, Vegafruit was able to supplement the support they received from international lenders by buying newly privatized or struggling assets at advantageous prices.

Nature of the Post-Conflict Environment for Enterprise

Regional Suppliers

Unable to secure a steady supply of domestic produce, Vegafruit initially imported 95% of its raw materials. Estimates of Serbia and Montenegro's horticultural production from the Foreign Agricultural Service of the United States Department of Agriculture offer a reasonable proxy for the scale of supply declines faced by agricultural buyers and processors in neighboring Bosnia:



While local production dwindled, agribusinesses faced the twin challenge of realizing their purchases in an informal market stretched across restricted boarders. When processors connected with suppliers they often lacked legally enforceable contracts, standard measures of quality, or traceability.

For example, Serbian farmers who might otherwise have supplied raw materials directly to fruit processors like Vegafruit, were banned from export by a UN enforced trade embargo. At the time, the United States Department of Agriculture's Foreign Agricultural Service speculated that, despite the ban, much of the region's supply of dried plums came from Serbia via informal channels. "According to some unofficial sources, prunes have managed to be traded illegally with neighboring countries for fuel, agricultural inputs, and medicine. It is believed that the prunes are then re-exported to countries who used to be traditional customers such as Germany, France, Italy and Russia." The UN trade embargo on Serbia was lifted and replaced multiple times over the course of the decade. Due to this volatility within the supply chain, emphasizing regional buyer-supplier relationships continued to be a means of managing risk for Vegafruit throughout the post-conflict period.

Vegafruit identified sourcing as a primary strategic challenge early in the post-conflict period. Initially, Vegafruit addressed its procurement issues by courting suppliers through prompt payment to growers in the Gracanica, Posavina and Brcko Districts of Bosnia. This became part of Vegafruit's more general culture of financial responsibility. According to Fadil Salihbasic, the company's financial director, "The most important thing was the introduction of the working discipline, cash flow discipline and the organization of business based on economic and market possibilities." Vegafruit would later exercise this fiscal ethic in repaying their donor loans.

Beyond establishing financially stable relationships with individual growers, Vegafruit began to finance expanded acreage in its key commodities through existing cooperatives. At the end of a growing season, Vegafruit would sign purchase agreements with cooperatives stipulating their desired volumes and setting agreed target prices. The company would in turn provide financing that allowed the cooperative to extend forward contracts to growers. This minimized risk for cooperating growers.

Vegafruit also offered these cooperatives technical assistance and effectively oversaw much of their daily management. In 1998, Vegafruit began providing seeds, tools, fertilizer and crop protection to selected suppliers. These inputs came with technical assistance from Vegafruit's own team of farm advisors. The company also helped determine the price charged to growers for cooperative services often extended using Vegafruit's financial help.

Where none existed, the company encouraged growers to establish new cooperatives. Over time, many of these cooperatives came to finance their own procurement. Currently, Vegafruit works with over twenty five cooperatives in Bosnia-Herzegovina. Its largest cooperative partner is Vocar, representing 800 small farms in the Republica Srpska.

While Vegafruit's mobilization of local producers was a remarkable success, even among Bosnian agribusinesses, it began with an agriculture sector that was unique agricultural policy and structurally suited to Vegafruit's regional supply chain model. Under Tito, the majority of Yugoslav farms remained in private hands while individual farm size was capped at 10 ha. Unlike state run farms in socialist Europe, Yugoslav farmers operated relatively independent of the Yugoslav state. In many cases, rather than receiving production subsidies, the county's farms were subject to a net taxation by the state that specifically favored urban industrial growth over agrarian mobilization. This relative freedom, combined with Yugoslavia's natural production advantages, left the countries with among the highest total factor productivity in the world and certainly the highest in socialist Europe. So while the disintegration of the Yugoslav government broke Bosnia's supply chains and created input shortages, farmers were not dependent on failing institutions to direct buyer supplier relationships. Nor did the country face the daunting review of land tenure that hurt economic productivity in neighboring Romania.

Suppliers and Reconciliation

In many instances Vegafruit reached across ethno-political lines to new growers and cooperatives. This is especially remarkable given the background of Vegafruit's founding family. Co-founder Muharem Salihbasic was imprisoned in Serb-controlled Republica Srpska while other members of the family were driven from their home by Serbian forces. Yet, as Fadil Salihbasic makes clear Vegafruit's policy on reconciliation places business before personal history: "We had to leave Doboj in 1994 because it was being ethnically cleansed. But now the war criminals who caused all the trouble are gone so we have no problem going back to Doboj. Our property has been returned to us, we have an office and summer place there. And we buy fruit from 2,000 farmers living in Republika Srpska (one of two 'entities' forming Bosnia-Herzegovina). People just want to forget the divisions of the recent past and work together to move forward."

The company has extended the same ethnically neutral pragmatism to its acquisitions. Muharem Salihbasic reported that the Doboj jam factory which he managed before the war, "now works at five per cent capacity. The people there would like us to buy it. We'll see. There are no limits on our ability to work there or anywhere."

Role of Outside Support / Facilitation

Quality and Scale Improvements Come with USAID Loans

The breakdown of supply chains posed a sourcing challenge, but also offered Vegafruit's veteran management the unique opportunity to be a first mover in a market temporarily without strong offerings and branded competition. With former state-firms in disarray and few branded products reaching this difficult market, Bosnian consumers were receptive to new products whose marketing message stressed quality. Vegafruit took advantage of this circumstance, using international enterprise development aid to rapidly transition from an artisanal operation into a scalable plant with standardized production procedures.

In 1994, production was based on family labor. All jam was made in large pots over an open fire and, as Edin, Muharem Salihbasic's son remembers, required "…much stirring." Standardizing, scaling up, and branding this operation required quality control and formal production procedures, at the time a relatively expensive investment.

As refugees, the brothers paid five or six times the rates offered to locals to rent a production hall. As these usurious rental rates illustrate, in conflict environments lending and investment is often predicated on social capital which displaced persons and ethnic minorities often lack. In the case of Vegafruit, international donors were in an optimal position to provide loans to a company with a sound financial legacy (based on the top management's previous involvement with jam production) but no social capital.

Vegafruit realized its first branding and quality improvements with the help of a 1996 loan of KM 1 million from USAID-BF. With these funds, Vegafruit constructed a production hall and purchased basic equipment for processing fruits and vegetables. With the production hall, Vegafruit consolidated operations previously spread across three rented facilities. Just as importantly, the production hall allowed Vegafruit to avoid predatory lenders biased against Muslim refugees.

To enable Vegafruit to complete the investment, in April 1997 USAID-BF approved a loan for an additional KM 300,000 that was used for moving and reassembling the equipment from the rented to the new production hall, and for working capital. A third loan for KM2.6 million was extended to Vegafruit in August 1997. The funds were used to complete a production hall, purchase equipment, and provide working capital. Total exposure of USAID-BF to Vegafruit was KM3.9 million. Vegafruit subsequently secured loans from the World Bank's International Finance Corporation and the European Bank for Reconstruction and Development. By 1999 this donor funding had helped Vegafruit become the country's only ISO certified processor.

Vegafruit's Refugee Workforce and International Loans

While all of Vegafruit's loans were dedicated to enterprise development, it is interesting to note that the company was also a good candidate to receive grants aimed at reconciliation. In its early years, 90 percent of Vegafruit's 160 regular employees as well as 400 summer season workers were internally displaced people. When it reached 350 people after its donor funded expansion, 80 percent of the company's employees were Bosnian-Muslim refugees. The remainder of those employees and the majority of the company's supplying farms were of Croat or Serbian ethnicity.

Evolving Product Strategy

Since its inception, Vegafruit has reoriented not only the geography of its procurement but also the nature of the produce it buys and consequently the products it markets. Only a few miles from the contested border between Republika Srpska and the Federation of Bosnia-Herzegovina, Vegafruit's founding brothers initially supplied local markets, the military, and even successfully sold into Sarajevo though a tunnel under the besieged city's airport. This was typical Vegafruit's early operations with severe infrastructure and military limits on market access.

In 1996, the Sussex European Institute issued a reconstruction survey which placed the cost of damage to railways at USD1 billion. Necessary road reconstruction was estimated to be USD350 million, not including repairs to roads then in use. In total, the survey estimated that two-thirds of the road network was passable. Damage to the telecommunications network was set at USD500m. Posing a similar check on the free flow of goods were military groups that continued to tax businesses well into the post-conflict period. The Economist Intelligence Unit reported in 1996, "Although much of the humanitarian aid has reached those in need, a certain amount has been siphoned off. The best- known method is the 27% transit fee on all goods systematically demanded by Croat authorities for passage through Croat-controlled Herceg-Bosna (despite the fact that Herceg-Bosna was officially dissolved in January 1996)."

During this period, poor logistics and refrigeration determined both the supply and demand for agribuiness products. Semi-perishable goods like Vegafruit's preserves derived competitive advantage from poor infrastructure. They were made of semi-perishable raw materials (dried plums), they were the only goods that could be transported without refrigeration, and in many cases were purchased by consumers who also lacked proper food storage.

While Vegafruit began as a processor and distributor of semi-perishables, by 2004 90 percent of Vegafruit's average annual fruit processing volume (16,000 MT) was dedicated to juice, a product inappropriate for Vegafruit's initial marketing channels and incompatible with its first buyers' needs for safe stable foods and impossible to produce without the company's initial investment in quality control. As the Vegafruit case illustrates, donors should look to fund businesses with a clear plan for responding to the shifts in market demand that will accompany any post-conflict economic stabilization. Business plans must include transitional steps to meet changes in the market that accompany post-conflict market evolution.

Post-Conflict Enterprise Development Interventions

Vegafruit combined veteran management, fiscal responsibility, a risk management strategy which included local sourcing, and a desire to found an up market export oriented brand. It did all this while employing both internally displaced peoples and buying from growers on the other side of a raw ethno-political divide. In short, the company was an ideal candidate for USAID loans. Looking at such a successful post-conflict business it is hard to separate the success of USAID's initial loans from the larger success of Vegafruit's management.

Perhaps the best lesson that USAID can take from the Vegafruit case is that good companies can manage their own supply-chain relationships even in a post-conflict environment. Rather than extend loans to companies in the hope that they will foster good buyer supplier relationships, USAID can use existing supply-chain relationships as an indication that a business is well positioned to manage loans.

Vegafruit proved remarkably adept at connecting reluctant suppliers with hard to reach customers during the Bosnian conflict. It is hard to imagine USAID contributing directly to that success as it was founded on business decisions that USAID may not be capable of making. For example, USAID is unlikely to advise a recipient enterprise to smuggle jam into blockaded Sarajevo. Nor could USAID provide an empirical and neutral opinion on the purchase of contraband dried prunes. Due to the highly improvisational nature of supply-chain relationships in the conflict- or post-conflict business environment, USAID was better able to help an enterprise already demonstrating functional buyer-supplier relationships.

Instead of helping Vegafruit to improve its supply-chain linkages, USAID's loans were best placed to help the company improve those aspects of its business that did not benefit from informality and improvisation. USAID's financing proved instrumental to Vegafruit's drive to scale up and improve the quality of their operations and it allowed the company to free itself from predatory lending arrangements. USAID loans also firmly directed the company toward export.

In short, USAID was tremendously helpful in transitioning those particular aspects of Vegafruit's business which benefited from greater standardization and institutional support. In areas such as long-term financing, the same improvisational spirit which had been an asset in managing buyer-supplier relationships was a liability, pushing the company to accept unfavorable lending terms. USAID allowed Vegafruit to access capital that did not have informal social networking as a prerequisite to favorable lending terms.

A similar circumstance prevailed in the area of quality control. While a willingness to boil prunes in an outdoor caldron was an asset in a conflict environment where the emphasis was on simply producing product, it did not help Vegafruit in a post-conflict world where there were price premium opportunities associated with quality. Here again, USAID's help was appropriate and necessary.

Finally, Vegafruit exports 50 percent of its production to Croatia, Serbia, Slovenia, Canada and USA[1] (it would not be an average for this year as export increased during the last three months). As of 2005, exports accounted for 25-30 percent of total sales. It is doubtless that this orientation is at least in part a function of USAID lending, as such export sales are predicated on the investments in quality and scale discussed above.

Strategies for Overcoming Business Risks in the Post Conflict Environment

Vegafruit began with a product that was appropriate given its environment of poor infrastructure and regionally segregated commerce. It purchased partially preserved raw materials and it produced a product that could be sold without constant refrigeration. This product choice is a response to the fundamental uncertainty of conflict- and post-conflict logistics. Only later, did the company begin transitioning gradually into perishable products.

The company also mitigated risk by diversifying its sourcing of raw materials. It cemented strong personal relationships with growers by offering prompt payments for delivered good. In doing so, it secured a steady flow of product from nearby farms, unlikely to be adversely affected by trade embargoes or further wars. They built on this strategy, providing their own financing to growers' cooperative in the post-conflict period.

Finally, Vegafruit tackled risk by diversifying its international financing. The company first secured loans from USAID. Unlike other enterprises receiving similar loans, Vegafruit paid back the money it borrowed on time. The respect that Vegafruit demonstrated for its financial obligations meant that other international organizations were forthcoming with loans. By using multiple international bodies for finance and technical assistance the company avoided becoming overly dependent on the help of any one donor. As the aid of a given donor is guided by political mandate, Vegafuit's diversification among lenders minimized this political risk.

Lessons Learned

Vegafruit illustrates several good practices for post-conflict enterprise development. However, it is important to recognize that Vegafruit operated in a relatively favorable post-conflict environment. In terms of land holdings and production systems, the former Yugoslavia offered lenders and agribusiness entrepreneurs a business environment unique within the post-socialist bloc and exceptional among post-conflict countries. Additionally, Bosnia's Civil War lasted a relatively short time, meaning that donors were able to lend to management teams that has operated successfully before the conflict began. In the case of countries facing more protracted conflict, donors may be dealing with management teams that have never had the opportunity to work outside of a conflict environment.

[1] Vegafruit's export orientation is also a product of irregular market access in the wake of the civil war. Mr Salihbašic remarked on the state of post-conflict integration in Bosnia saying, "Until recently it was easier for me to export to the United States than to the Republika Srpksa next door! There was too much paper work and taxes. However, the tax systems between the Federation and the Republika Srpska have been harmonised since January 1, 2005 so I think things will be easier now."

Even in such a favorable environment as Bosnia, USAID's best marginal contribution to enterprise development was not in lending directly to support stronger supply-chain and market linkages but in providing funding to companies that already demonstrated excellent skill in those areas. Judging by Vegafruit's experience, USAID is better positioned to leverage existing buyer-supplier relationships in post-conflict environments by identifying companies with veteran management who are willing to invest their own capital in rebuilding/improving the local supply chain. To these target enterprises, USAID can offer loans specific to areas of the enterprise's business plan that demand institutional support, such as quality control, processing capacity, certification for export, and marketing.

The Philippines, Mindanao, USAID Growth with Equity

Overview

Geography

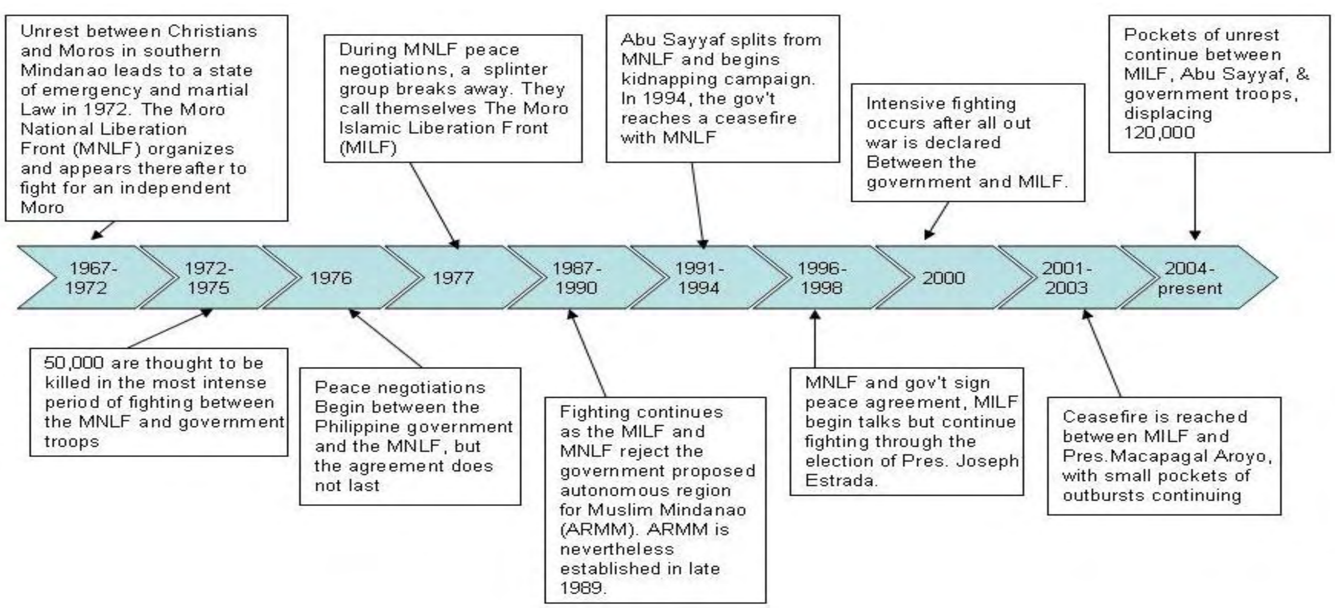
Mindanao is the southernmost of the main island groups of the Philippines, and also the second largest of the 7,107 islands that comprise the Republic. It is home to a vast array of people - Muslim, Christian as well as other religions. The island of Mindanao constitutes 34% of the landmass of the Philippines and is home to about 25% of the Philippines' 87million people.

Origins and Nature of the Conflict

Islam was introduced in Mindanao by Muslim Traders in the 14^{th} century. In the 16^{th} century, the arrival of the Spaniards converted much of the Philippine islands to Catholicism, but these conversions fell short of reaching the southern islands and intermittent conflict has taken places since this time. However, as Filipino Christians began settling Mindanao throughout the early 20^{th} century, by the 1950's Mindanao had a Christian majority, with large pockets of Muslim majorities in south-central and southwestern areas.

Tensions between the earlier inhabitants and the new Christian settlers worsened as the population grew, eventually exploding into a violent struggle. By the turn of the 21^{st} century, the island's 90% Muslim majority in the 1800's had dwindled to just 18%. While the conflict was due in part to religious differences, much of it has been driven by the clash over land, natural resources, culture and self-determination. Out of the conflict arose many different actors. The Moro National Liberation Front (MNLF) is the principal faction commonly accepted as the voice of the Muslim minority.

Timeline for Mindanao Conflict



Attempts at achieving peace with the MNLF were made by a series of Filipino governments over the course of several decades. During the early negotiations in 1977, between the Government of the Republic of the Philippines (GRP) and the MNLF, a splinter group, known as the Moro Islamic Liberation Front (MILF) broke away from the MNLF. The late 1970's saw the heaviest fighting with the MNLF. The MILF felt that their interests were not adequately being represented by the MNFL. The GRP focused its peace negotiations with the MNLF, established the Autonomous Region in Muslim Mindanao (ARMM) in 1989, and ultimately signed a peace agreement with the MNLF 1996. As Joseph Estrada ascended to power in 1998, the MNLF had largely integrated into the government, and attention was shifted to negotiating peace with the MILF. Following intensive conflict in 2000, in the middle of 2003, a ceasefire agreement was reached between President Gloria Macapagal Arroyo and the MILF.

Two other groups have continued to fight with the GRP: the Abu Sayyaf and the New People's Army (NPA). The Abu Sayyaf, meaning "Sword of God" in Arabic, is a terrorist group. They are notoriously recognized for their series of kidnappings of Western nationals and Filipinos in exchange for ransom. Both the MNLF and the MILF condemn Abu Sayyaf's activities. The United States has put Abu Sayyaf on its list of 'terrorist' organizations, stating that it has links to Osama Bin Laden's al-Qaeda network. Sporadic fighting continues between the GRP troops and Abu Sayyaf.

The New People's Army (NPA) is the military wing of the Communist Party of the Philippines (CPP). Basing its principles on Mao, it was formed in 1969 and has aimed to overthrow the GRP through guerilla tactics. They were listed by the United States as a 'terrorist' organization in 2002, and as of this writing are still at large in Mindanao carrying out guerilla activities.

Nature of the Post-Conflict Environment for Enterprise

Effects of the Conflict on the Economy

The conflict resulted in over 120,000 casualties, and estimates place the direct economic loss (over the period 1970-2001) at $2 - $3 billion USD and the indirect loss at billions more. With little infrastructure to speak of before the conflict, most of what remained was destroyed making access to markets very difficult. Under-investment in public infrastructure[2] and an unsupportive policy environment from the GRP and conflict resulted in Mindanao being an unattractive location for private investment. Domestic production and income levels remained well below the national average, and so did other quality of life indicators.

Though the strengthening of the ARMM was part of the peace agreement with the MNLF, the region did not benefit. In fact, its poverty situation worsened. The little investment that went into the ARMM were mostly for small infrastructure, livelihood and social projects, which had limited immediate positive impact on the region's economy.

Sixteen of the 23 poorest provinces of the Philippines are in Mindanao, and half the people on the island live below the poverty line. While Mindanao is one of the country's major suppliers of agricultural, fishery, forestry, and mineral products, most of these products leave the island as raw material to be processed into higher value products in other parts of the Philippines. Its economy was principally based on the production of basic agriculture and aquaculture commodities, with little value-added in terms of food processing. Relying on rural agricultural production as its economic foundation, there was limited capacity for entrepreneurship and business ownership.

[2] Despite Mindanao possessing 35% of the land-mass of the Philippines, and 25% of the population, it historically only received 10% of the GRP's resource in infrastructure development.

Mindanao accounted for only fourteen percent of the country's total manufacturing output and eleven percent of its exports. From the mid-1970s to early 1990s, a combination of deteriorating peace and order and limited government attention or financial support to the island resulted in a poorly performing economy and a general sense that Mindanao was a land of little opportunity.

Global Economic Factors

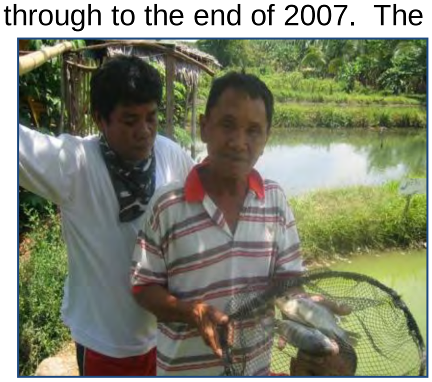
In late 1997, a series of economic, political and climatic events began to pose significant constraints on economic recovery. These events included the "Asian Financial Crisis" and its resulting credit squeeze, (1997-2002), which deterred foreign investment from entering the region, the worst incidence of El Niño drought conditions in decades (1998), which impacted agricultural production, heightened conflict between the Philippine army and various armed Muslim groups (1999-2002) and the kidnapping of foreign tourists and development works in Central and Western Mindanao (1999-2002). Either of these events could have destabilized the region, but combined, they threw Mindanao into an economic downturn.

Role of Outside Support / Facilitation

Seeking to improve the economic and political climate in the country, USAID expanded assistance efforts in Mindanao in the 1990's. 1996 marked the signing of the Peace Agreement between the Government of the Republic of the Philippines (GRP) and the Moro National Liberation Front (MNLF).

The Growth with Equity in Mindanao (GEM) Program has been USAID's principal activity in Mindanao since 1995. It is the largest and best known of all the various USAID programs and activities in the region. It is also an "umbrella" program under which USAID is able to support a wide range of activities in Mindanao, all intended to contribute to peace and economic development. The GEM Program's overriding objectives have been to accelerate economic growth in Mindanao and ensure that this growth benefits as many people as possible in the targeted areas. While USAID's activities in Mindanao cover the entire island, as mentioned above, there is a concentration of effort in conflict affected areas, including the area affected by the Muslim separatist conflict, and, to a lesser extent, the area affected by the New People's Army (NPA) conflict. The target beneficiary population of those living in the ARMM is 3.5 million.

Initially conceived as a five-year program that would run from 1995 to 2001, the appearance of terrorist organizations in Mindanao in 2000-2003, and new concerns about Mindanao becoming a recruiting ground for international terrorist organizations, influenced USAID to intensify its activities. Experiencing earlier successes with reintegrating former MNLF combatants into the community and economy, USAID subsequently decided that the GEM Program was a useful and effective effort to mitigate future conflicts and decided to continue the GEM Program through to the end of 2007. The initial 5-year program became known as the GEM-1 Program, while the recently completed GEM Program, running from 2002 to 2007, is referred to as GEM-2.


Mindanao fisherman display nets used for area fishing.

Support to Farmers and Fishermen

In support of its objective of accelerating the economic transformation of Mindanao, the program initiated activities intended to increase the variety, volume and value of Mindanao products and provide access to new, more profitable markets. A corollary goal was to expand the participation of lower income groups, including Muslim communities, in these productive activities.

GEM played a valuable role by transferring technology, providing technical assistance and identifying new markets for farmers, fishermen and enterprises. GEM helped more than 56,000 Mindanao farmers and fishermen adopt or expand production of higher value crops and access new markets, increasing their income by over 100%. GEM provided technical assistance and training to over 78,000 farmers and fishermen. About 18% of beneficiaries were Muslims; 23% were women; and 14% were members of indigenous communities. GEM also helped arrange 27 contract growing agreements and 83 marketing agreements with a combined sales value of over $40,900,000.

In 1997, GEM initiated the “Targeted Commodity Expansion Program” (TCEP) to focus its agribusiness support on key agriculture, aquaculture and fisheries sectors. The TCEP was intended to help bring about the solid introduction or significant expansion of non-traditional commodities, including mango, other high value fruit (durian, mangosteen, bananas, lanzones, rambutan, calamansi), timber, rubber, coffee, peanuts, fish and aquaculture. Particularly benefiting from this program were the fishing, seaweed and vegetable sectors.

Due to its critical importance to the economy of Southern Mindanao, the GEM Program included a strong focus on sustaining the tuna fishing industry. GEM helped assure that the size of the annual fish catch did not exceed sustainable levels for the different species being caught and landed, and that the fishing industry provided a sustainable long-term contribution to the economic development of Southern Mindanao. With GEM assistance, the tuna industry organized itself into regional and national organizations. With the organizational structure in place, GEM supported the Philippine’s active participation in an international fisheries management organization that helps ensure regional tuna catches are within sustainable limits and that reduces the level of illegal and unregulated fishing in the Western and Central Pacific. GEM also supported initiatives to implement bilateral fisheries management and access agreements with neighboring countries, which among other elements, provide for sustainable stock management and access of Philippine fishing craft to those countries’ waters. The first bilateral agreement was signed with Indonesia in 2001. In collaboration with the Department of Agriculture, Bureau of Fisheries and Aquatic Resources (DA-BFAR) and Department of Foreign Affairs (DFA), GEM conducted a series of programs, which resulted in a significant reduction in the catch of immature yellowfin and big-eye tuna and improvement in fish quality and price.

GEM promoted the expansion of the tuna-processing sector to increase value-added to the existing tuna catch without placing additional pressure on the resource. GEM assisted private firms as they launched some 40 discrete fishing, processing, and marketing ventures. These ventures entailed total private investment of about US$39 million, and resulted in the creation of over 5,000 new jobs and benefited 10,000 small-scale hand-line fishermen. While catch remained more or less static between 1996 and 2001, the value of processed products increased dramatically due in large part to GEM assistance.

Realizing that about 100,000 predominantly Muslim families in Western Mindanao directly depend on seaweed farming for their livelihood, the GEM Program helped the seaweed industry maintain its competitiveness and increase the incomes of seaweed farmers by giving them access to new technology and to more profitable markets. GEM helped create a regional association of producers, traders and processors, and establish the first local seaweed processing plant and improved market access. Equally important were successful efforts to increase industry, academic, donor and government contributions to sustain competitiveness and address emerging industry issues. GEM attracted PhP17 million in donor funding for training programs, research and development, seaweed propagation facilities, and post-harvest and drying facilities.

Shipments of high quality vegetables out of Mindanao increased dramatically due to GEM assistance. Vegetable growers were taught how to use cold and cool chain systems – which utilize stackable plastic crates and refrigerated vans to improve post-harvest handling and shipment of temperate vegetables from Mindanao. The Program also helped organize two producer associations, one in Northern Mindanao and another in Southern Mindanao, through which it provided training, extension services, market linkage, institutional networking and capability building support. GEM assisted these producer associations in producing buyer and production guides, conducting buyer-producer congresses, and setting up seed caravans and demo farms that introduced new seed varieties and production technology.

Support to Trade and Investment in Mindanao

From its inception, the GEM program focused on attracting more private sector investment in Mindanao to help create additional employment. New investment financed the establishment of processing facilities that add value to Mindanao agricultural and fisheries products, helped put in place key elements of the supply and marketing chain, and led to the establishment and expansion of numerous secondary industries.

Program staff worked closely with potential investors to acquaint them with the favorable Mindanao business climate, and to help them identify prospective sites, reliable local partners, financial sources and potential markets. For food processors and others needing a reliable supply of raw materials, GEM identified qualified groups of growers, linked them with processors, and provided the technology and technical training required for the growers to meet buyer specifications.

There were a few difficulties in stimulating investment however. The economic depression resulting from the Asian financial crisis dampened market demand for certain agri- and aquaculture products. For instance, when international demand for tilapia diminished, producers were forced to seek markets internally, like restaurants and hotels. In some instances, the lack of trust and poor communication impaired a few joint-venture opportunities when exporters and buyers could not agree to mutually favorable terms. In another instance, rising production costs made some agricultural activities uncompetitive. The largest impediment to overcome to stimulate investment was the poor road network, which made it difficult for some products to reach their markets profitably.

Notwithstanding the unfavorable investment climate starting in 1998, GEM accomplished significant results, particularly in terms of generating investments and jobs in agribusiness and small enterprises. Overall, GEM helped investors and buyers successfully initiate 343 investments or transactions in Mindanao valued at US$441 million. These include 84 key agribusiness enterprises, 37 non-agribusiness enterprises, and 18 telecommunications projects. According to progress reports from the project, these investments generated 40,000 direct jobs and 37,000 indirect jobs (workers in ancillary industries).

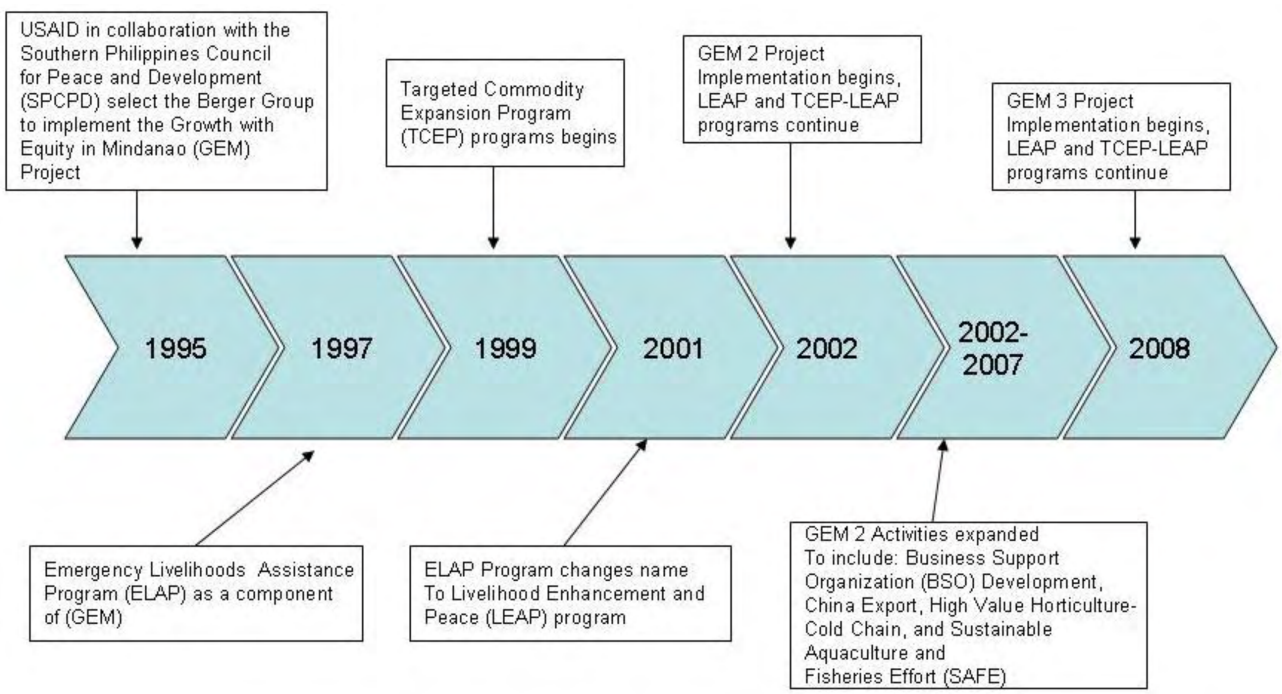
Not taken into account are the investments and jobs resulting from the expansion or replication of GEM-assisted investments, promotion activities throughout Mindanao and the region, trade and investment missions, and meetings between potential investors.

Some GEM-assisted investments, particularly in the passenger transport business, stopped operations partly due to the Asian financial crisis. However, while in operation, they provided essential services and created jobs.

Post-Conflict Enterprise Development Interventions

Under GEM and GEM-2, several activities were carried out to improve the economic condition of those living in Mindanao. The following illustration depicts a timeline of these activities.

Timeline for Philippines GEM Project



Emergency Livelihood Assistance Program (ELAP) - Aug 1997 to 2002

ELAP's goal was to assist former Moro National Liberation Front (MNLF) combatants in making the transition from guerilla fighters to productive and peaceful farmers by providing them with rapid and tangible livelihood assistance.

ELAP was designed to assist former MNLF combatants who were not integrated into the armed forces of Philippines (AFP), or national police (PNP). Extension and market assistance, and initial production inputs were provided (depending on crop) for one or two growing seasons. The three crops supported were; High value corn, rain-fed rice, and seaweed production. Farm-raised fish was attempted but upon realizing that the activity did not produce enough income for enough beneficiaries in a short amount of time, it was discontinued, and attempted later when there was a stronger financial safety net. Inputs of seeds and fertilizer were provided for two seasons for corn and rice. For seaweed and fish production, inputs of netting materials and wooden stakes for drying were provided to beneficiaries for one season only. All inputs were funded by USAID/OTI, with program administration and management funded by USAID/Philippines.

ELAP started with 4000 beneficiaries in 1997 and expanded to 13000 by 2000. Its last group from its initial 4000 beneficiaries 'graduated' from ELAP in 1999, encouraging a follow-on activity; the Targeted Community Enhancement Program (TCEP-LEAP).

Results

According to an independent evaluation[3], beneficiaries engaged in productive activities grew from 27% to 99% of the population; those with farming experience grew from 65% to 97%, (who continue to farm years after the activity ended). Yields for corn grew 37% (from 2.62 tons/ha to 3.6 tons/ha); rice grew 133% (from 1.93 tons/ha to 4.5 tons/ha); seaweed grew 51% (from 382kgs to 578kgs)

More importantly 99% [4] of beneficiaries responding in the evaluation believed that ELAP discouraged fellow former combatants from resuming armed conflict.

Targeted Community Enhancement Program (TCEP and TCEP-LEAP) 1999-2002

Through GEM's Business Growth component, the TCEP-LEAP Program was implemented to assist LEAP graduates in producing and marketing higher value commodities. Under TCEP-LEAP, fish production, (using fish cages) was added as a livelihood activity because beneficiaries were able to rely on their incomes from corn, rice and seaweed production as the financial safety net as they ventured into fish production. As in the previous program, only one season's worth of bamboo poles, netting materials and wooden stakes for drying was provided.

Asian milkfish are a popular export from the Mindanao region.

TCEP-LEAP was also continued under GEM2 (2002-2007)

Results

As of January 2007, over 9000 ex-combatants have been trained and over 7700 ex-combatants have been producing, and over 6600 ex-combatants have been selling higher value commodities in aquaculture, (finfish, milkfish, catfish, tilapia, blue-crabs and prawns), bananas, livestock, mangoes, vegetables and other products.

Growth with Equity in Mindanao 2 (GEM2) (2002-2007) Livelihood Enhancement and Peace (LEAP) Program (2002-present)

Following the success of ELAP, LEAP's goal was to assist former MNLF combatants to initiate 'commercial level' production of suitable commodities.

The LEAP program was designed to assist former MNLF combatants to initiate or significantly expand production of crops suitable for the areas where they lived. The GEM Program worked collaboratively on a day-to-day basis with the LEAP Program, providing communications support and assisting efforts to bring small rural infrastructure into LEAP communities. LEAP assisted former combatants in making the transition from guerilla fighters to farmers and fishermen by providing them with the production inputs for small-scale commercial production. LEAP also provided post-harvest facilities and small infrastructure to their communities to help increase their income and improve their lives.

Results

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[3] GEM-ELAP Evaluation Survey Report – Lumawag & Octura, of MSU-GSC Foundation, and Digal (2001)

[4] 600 respondents were surveyed under the GEM-ELAP Evaluation Survey Report.

Over 28,000 former MNLF combatants were assisted through the provision of technical support, equipment and facilities. 741 pre and post-harvest equipment items and facilities were turned over to 400 MNLF communities under Transition Assistance Grants (TAGs).

Other Illustrative GEM2 Activities:

High Value Horticulture/Cold Chain development

This activity sought to introduce or expand high value production and marketing of several lucrative, non-traditional commodities in the conflict-affected areas of Mindanao.

Results

Domestic vegetable shipments to metropolitan Manila increased from an average weekly shipment of 22MT in 2003 to 37MT in 2005. Off-season production of mangoes increased the average weekly shipment to Luzon and Visayas markets from ≥20MT in 2003 to 32MT in 2005.

Increasing exports to China

Assuring the expansion of fish, and fruits and vegetables are exported to the large and growing China market.

Results

Total exports in U$D increased from $2m in 2002, to $17m in 2007 with top exports of banana chips and processed fish.

Sustainable Aquaculture and Fisheries Effort (SAFE)

GEM, working with the South Cotabato, Sultan Kudarat, Saranggani, General Santos (SOCSKSARGEN) Fishing Federation and GRP Dept of Agr's Bureau of Fisheries to ensure that the harvesting of marine life is done in a sustainable way, doesn't deplete natural resource, and provides long-term contribution to economic development.

Results

Since 1997 GEM coordinated investment and facilitated partner agreements with processors and producers to open 20, value added processing plants in Mindanao. Of the 20, 8 canneries operate with a capacity of 300MT/day.

The average price received for sashimi-grade whole tuna increased from PhP80/kg (U$D1.87) to PhP200/kg (U$D4.60) after HACCP and other initiatives were implemented.

Strategies for Overcoming Risks

USAID activities cover all sectors. Major efforts were undertaken in: infrastructure development, education improvement, health and family planning services improvement, agribusiness and fisheries development, democracy promotion, former combatant reintegration, environmental protection and management, renewable energy development, public administration improvement, as well as other sectors. All activities carried out by USAID in Mindanao had the mutually supportive objectives of consolidating and strengthening peace in Mindanao, and expanding economic opportunity for the people of Mindanao. Program implementation has been oriented toward:

Expanding the participation of lower income groups (e.g., marginal farm/fishing families, small producer groups) in more productive enterprises by helping them gain access to more lucrative markets, increasing their returns from existing markets, and gaining employment in expanded agro-industrial sectors;

- Improving the trade and investment environment in Mindanao by facilitating the establishment of essential infrastructure, helping the Mindanao community advocate for government policies and practices conducive to economic growth in the form of regulatory reform, and strengthening business promotion organizations; and
- Accelerating the economic progress of religious and cultural minorities by increasing their participation in productive farm/fishing activities and facilitating major private investments in areas populated by Muslims.

Lessons Learned

***Focus on private-sector-led development* by linking chambers and producer groups to end markets**. GEM & GEM2 directed its assistance to private firms, farmers, fishermen and business organizations, not to government organizations. Its main point of interaction was through the Mindanao Business Council, an umbrella organization representing producer organizations and Chambers of Commerce. Through its interactions with the MBC, the GEM was able to focus resources where they could be used most effectively, while hopefully insulating the program from the possible disruptions resulting from policy changes within the GRP. Recognizing that an improved investment and trade environment in Mindanao would expand participation of lower income groups into increased production, GEM sought to facilitate access to new markets, and spark job-creation by linking producer groups with end-markets.

These producer groups were comprised of ex-combatants, (a target beneficiary) who were not integrated into the national army. The ex-combatants were organized based on geography and production activity, but it was also their existing organizational network that encouraged cooperation among groups.

***Pursue market-driven agribusiness development*.** Market-led agribusiness development can work, but supply-driven projects usually do not because they are generally market distorting and thus unsustainable. Many post conflict interventions rely on activities that can be implemented quickly, but not with the end-market in mind. These activities may serve short-term goals, but they neglect to establish the building blocks for long-term economic recovery. Investment and transaction assistance should start with the identification of specific markets, and only then should assistance be provided to firms or cooperatives to develop the capability to access these markets.

In the case of GEM, sub-sectors were chosen based on the ease of technology adoption, cyclical growing seasons, production capability and market demand. Combined with these attributes, support from government agencies provided technical support, which allowed for the crops to be grown easily, to ready markets. Early successes motivated producer groups to continue producing even after they ‘graduated’ from programs and were no longer targets of technical assistance.

***Link small businesses and producers to bigger firms*.** Larger, transformational investment can act as a nucleus for the establishment or strengthening of SMEs. By linking SMEs, farmers and fishermen with consolidators, buyers, and large firms in the value chain, (through subcontracting and similar arrangements), small businesses and producers are given access to technology, services, markets and other resources that they typically cannot generate internally.

Grants are effective in early recovery efforts, but should discontinue when production increases. Perhaps the most significant lesson from GEM and GEM2 is the recognition that inputs in the form of subsidies (grants and/or vouchers) are necessary to spark production in early stages of economic recovery. They are effective in laying the groundwork for the eventual transition to a market-driven economy once production reaches sustainable competitive levels.

In GEM, grants were provided to assist producer groups in establishing new production techniques, in market-demanded crops. However, as the production capacity of these groups increased, GEM shifted its emphasis to a more value chain driven approach, which sought to link producers to end-markets, strengthen weak links and relationships within the value chain, and ultimately draw private sector investment into the value chains with the promise of growth.

Afghanistan: IFC PEP-MENA Green Raisin Project

Overview

The International Finance Corporation established PEP-MENA, it's Advisory Services in the Middle East and North Africa, in 2004; it includes nineteen countries with frontier markets, most of which are in conflict or post-conflict countries in the Middle East/North Africa region. PEP-MENA's four activity areas include fostering business enabling environments, strengthening financial markets, developing small- and medium-sized enterprises (SMEs), and promoting public-private partnerships (PPPs).

Afghanistan is one of the priority countries for PEP-MENA, and one in which it provides advisory services as a vehicle to promote economic development. As agriculture is the dominant industry in Afghanistan, IFC launched a study to gauge which agricultural sectors had particular potential for development. It discovered that dried fruits, particularly raisins, presented numerous opportunities.

Green raisins earn their distinct color by being dried in the shade.

Prior to the twenty-five years of conflict that have ravaged Afghanistan, the Kandahar province was renowned for its grapes, melons, and pomegranates. Most of the orchards were either destroyed in the war or rendered inaccessible by landmines. In May 2006, IFC PEP-MENA introduced an advisory pilot project to rebuild and upgrade the sector, from cultivation to marketing.

The project has three primary goals: 1) to introduce new production technologies through training; 2) to work directly with the traders to encourage efficiency and quality; and 3) to assist traders in better understanding and connecting to export markets.

Because green raisins fetch premium market prices, compared to both dark raisins and fresh grapes, the IFC project saw particular potential in developing the farmer's ability to increase green raisin production.[5] Prior to the project, techniques that farmers were using to produce green raisins inhibited output and quality levels. Further, farmers were selling their raisin crops to end-traders through a series of intermediary traders, with little or no opportunity to share information related to enhanced production techniques or market demand. With improvements in variety, quality, and quantity, the traders also needed to find new export markets for Afghanistan's green raisins.

Nature of the Post-Conflict Environment for Enterprise

Farmers sold raisins to end-traders through a series of several intermediary traders (often 3 – 5), primarily along ethnic or social lines within their village or region. Because farmers feel more secure having commercial relationships within their own communities, farmers and traders were not communicating directly regarding market demands and producer supplies. This fragmented delivery of raisins to the market had a negative impact on both quality and profit margins. The longer it takes an agricultural product to arrive at its end market – and the more points of contact it must cross – the greater the likelihood that the product quality will have deteriorated, in terms of bruising,

[5] The distinct color of a green raisin comes from being dried in the shade, rather than in the sun.

discoloration, cleanliness, or freshness. Likewise, more direct relationships between traders and farmers eliminate excessive division of profits between several intermediaries, resulting in higher profit margins for the parties involved.

Farmers had been shade-producing green raisins in drying houses constructed of very thick, mud brick walls that restricted optimal air circulation. The grapes were dried on plates, preventing air from even reaching the bottom half of the cluster's surface area. This technique only produced green raisins for about 1/3 of every cluster; the other 2/3 were dark raisins, the least lucrative product of the farmer's options from his harvest.

The project selected ten traders who each chose one farmer with whom to work, and together, each team built a new drying house, individually owned by the farmer.[6] These *kishmish khanas* were traditional Iranian drying houses made of lighter brick, red stone, and thinner walls that allowed for better air flow. The grape clusters hang from ropes, which brings greater surface area exposure to air and less opportunity to prematurely oxidize from direct contact with plates.

The traders were encouraged to provide extension services, an activity that was facilitated through the recruitment of extension officers. The officers have directly trained almost 200 farmers, although approximately 400 farmers have benefited from learning indirectly. The trainings have provided farmers with information on cultivation, harvesting, and processing, and building *kishmish khanas*. The training introduced an additional technique for accelerated drying; grapes are now treated with an alkaline solution before being hung in the houses to further reduce drying time by about 66% (from 35-40 days down to 10-15 days). In the past, the lengthy 40-day drying cycle only allowed for the production of one batch of raisins annually, while the new 15-day drying cycles permit three batches. Since there is only one grape harvesting season per year, this three-fold increase in production possibilities significantly mitigates the high risk associated with a single yield.

Two Afghan green raisin producers hang grapes in a *kishmish khana or drying facility.*

The green raisins are sold in bulk to traders, who sort and clean them depending on the final market. Although green raisins cannot be washed, dust and stems are often removed, and the raisins are sorted by color. Exposing traders to export demand standards better enhanced their capacity to respond to market demands and standards.

Role of Outside Support / Facilitation

This IFC project has three primary goals: 1) to introduce new production technologies through training; 2) to work directly with the traders to encourage efficiency and quality; and 3) to assist traders in better understanding and connecting to export markets. Using the traders as its mobilization base, IFC established relationships with ten traders who worked with farmers and extension officers directly. Together, they built the new drying houses, mobilized extension officer recruitment, and organized training activities for both the officers and the farmers. IFC evenly shared the salary cost of the extension officers with the traders and provided training to the extension officers that consisted of the use and application of alkaline solution, new harvesting techniques, hanging methods, and drying house construction.

[6] Some farmers rent space in their new drying houses to other area farmers, a practice that continues from many years prior.

IFC's most difficult challenge has been in helping traders better access export markets. The project identified some potential export locations and assisted in collecting information regarding standards requirements, particularly in Asian and Europe. Trade missions and trade activities were developed to expose traders to various export market possibilities and requirements related to color, quality, cleanliness, and sorting criteria.

Strategies for Overcoming Risks

Using extension officers to facilitate stronger relationships between farmers and traders helps mitigate issues related to social trust. Additionally, these core units offer the basis for team commerce, rather than individual commerce alone and allow each stakeholder to further develop his own capacities.

Dark raisins fetch the lowest market price, green raisins fetch the highest market price, and regular grapes fall some place in between. With each harvest, farmers must decide how to diversify their risk and maximize their profit. Traditionally, these farmers attempted to increase their margins by producing as many green raisins as possible, although the resultant dark raisins from each cluster fetched a lower price than if the entire harvest had been sold as fresh grapes. Greater production of green raisins has allowed farmers to increase their terms of trade through a higher priced, higher value-added export product. Farmers can now weigh the diversification of their processing decisions based on expectations of world prices for each of the three products.

There are some security considerations for exporting from Afghanistan that make any type of export transport more restrictive, slower, and more costly. However, products of a seasonal nature tend to raise relatively fewer concerns from importers, as there is lower likelihood of supply breakdown caused by conflict or post-conflict interruptions.

Lessons Learned

- **Investing in upgraded processing capacities should be accompanied by expanded access to end markets with demand for the product.** In the case of Afghanistan, the higher margins that green raisins can bring make export markets more appealing than local ones. However, with new markets come new – and often more demanding – product and delivery requirements. For example, Afghanistan's Singapore clients have much higher standards than its Pakistani clients in terms of color, quality, cleanliness, and sorting standards.
- **Product diversification can mitigate risks associated with price fluctuations.** Through upgraded processing capacity, the farmers' ability to better diversify their product strengthens their income stability. Rather than being dependent on a sole end product, farmers can allocate their annual harvests according to the prices received for each variation.
- **Innovative solutions to working within established cultural relationships are fundamental.** Trust and amongst key stakeholders is crucial for the success of any project, especially one in which decades of conflict stands between potential commercial relationships. Using a local intermediary – who can offer a new and important service – increases the likelihood that the services will be well-received and utilized.

IFC PEP-MENA's green raisin pilot project began in May 2006 and ended one year later, in the spring of 2007. The success of the project has resulted in second-phase plans for the spring of 2008, which include the expansion of the raisin program to include training of farmers and building of more *kishmish khanas*, as well as the formation of trading relationships with more Middle Eastern and European markets.

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