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CASE STUDY OF THE POULTRY AND GRAPE/RAISIN SUBSECTORS IN AFGHANISTAN

GUIDED CASE STUDIES IN VALUE CHAIN DEVELOPMENT FOR CONFLICT-AFFECTED ENVIRONMENTS

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ACRONYMS

AVA	Afghanistan Veterinarian Association
ALP	Alternative Livelihoods Programs (USAID)
ASAP	Accelerating Sustainable Agriculture Program (USAID)
DCA	Dutch Committee for Afghanistan
EU	European Union
FAO	Food and Agriculture Organization (of the United Nations)
GDP	Gross Domestic Product
GIS	Geographic Information System
GRAPE	Grape Revitalization for Afghanistan Productivity and Empowerment
GTZ	German Technical Assistance Agency
ICG	International Crisis Group
KG	Kilograms
MAIL	Ministry of Agriculture, Irrigation, and Livestock
MFI	Multilateral Financial Institution
MT	Metric Tons
NATO	North Atlantic Treaty Organization
NGO	Nongovernmental Organization
PAL	Project for Alternative Livelihoods (GTZ)
PRA	Participatory Rural Assessment
PRT	Provincial Reconstruction Teams
RAMP	Rebuilding Agricultural Markets Program (USAID)
ROP	Roots of Peace
RRMA	Rural Rapid Market Assessments
UN	United Nations
USAID	United States Agency for International Development
VFU	Veterinary Field Unit

EXECUTIVE SUMMARY

Is the value chain approach effective for restoring market-based economic activity in a severely affected post-conflict environment? The goal of this study is to gather empirical evidence to answer this question, looking at the role of the value chain approach in the work of USAID's Rebuilding Agricultural Markets Program (RAMP) and Accelerating Sustainable Agriculture Program (ASAP) projects in Afghanistan, the way the work was conceived and executed, and whether the value chain approach was a significant factor in achieving impact.

This case study is part of a research effort funded by USAID to answer the question of whether value chain analysis and programming is at least a partial solution to the conundrum of the relief and development communities, i.e., how to balance meeting urgent needs against the long-term goal of sustainable and equitable development. Does value chain analysis provide the necessary information to achieve this balance?

The research team was comprised of lead researcher and writer, Alene McMahon, MBA, and technical reviewer Annette Brown, Ph.D.—both directors at Chemonics International—and Afghan research assistant Masood Masood. A significant amount of desk research was carried out initially in Washington, D.C. on the political and economic plight of current-day Afghanistan using books, articles and many relevant donor project reports. The lead writer spent three weeks in Afghanistan conducting field research in late October 2007.

The study focused on understanding the methodology of RAMP and ASAP project interventions and their effects in terms of three research questions (see below). Research in Afghanistan concentrated on interviewing project beneficiaries and stakeholders to learn whether and how the value chain approach had been applied, and on ground-truthing desk research. Security was a significant constraint to moving about, even within Kabul. The Shomali Plain was the only area outside of Kabul deemed safe enough to visit. Fortunately the Shomali Plain was the major focus of the grape/raisin chain interventions, as well as the poultry chain. A list of interviews conducted during the study is provided in Annex B.

Information was gathered to address the three questions below. Conclusions are included in this section, along with recommendations that reflect the lessons learned, best practices and conclusions drawn from the research conducted in Afghanistan.

1. How can the value chain approach be used to rebuild markets in a conflict-affected environment?

Conclusions

- Bringing buyers and sellers together to identify end market needs is a critical first step.
- Facilitating sales transactions and relationships is a critical second step.
- Assisting chain participants individually and collectively in upgrading to meet market demand is necessary through substantial material and technical assistance.

To rebuild markets or capture new ones, the value chain methodology prescribes starting with the obvious: an end-market analysis. Understanding the end market makes it possible to work backward along the chain to identify "chinks" in the progression. The RAMP and ASAP projects' methodology stressed defining market needs by bringing buyers and sellers together, and then communicating the needs to intermediaries along the value chain: exporters, wholesalers, processors, shippers, producers, input suppliers, etc. In some environments, communicating knowledge to value chain participants is sufficient motivation for them to make whatever changes are needed to increase their competitiveness. In a severely damaged economic and political environment such as Afghanistan, however, it is not sufficient to educate chain participants about end-market requirements. Actors at several, if not all levels of the chain need support to meet those requirements—not just in the form of technical assistance, but material and financial

support to obtain the means of production and mitigate risks. RAMP and ASAP made interventions all along both the grape/raisin and the poultry value chains, from input suppliers to producers, to traders, processors, wholesalers and exporters.

Recommendations

- Bring the sellers and their goods to the new market to learn, make contact with buyers, and get a fundamental understanding of the end-market requirements.
- Bring buyers to the sellers to communicate their needs, requirements and conditions for buying, and to learn about potential new sources.
- Use this understanding of end markets to motivate chain actors to make the needed changes along the chain.
- Work between the bigger players (wholesalers, exporters) at the end of the chain and the producers and input suppliers at the other end of the chain to achieve the changes to facilitate sales.
- Use a transactional approach to facilitating the first few deals to create sufficient demand and thus incentives for the producers to respond.
- Focus resources on creating and strengthening the horizontal and vertical linkages on the chain. Be prepared for great difficulty in doing so if the population is traumatized by long periods of conflict and insecurity, and/or, as in the case of Afghanistan, there is little basic cultural inclination to associate and cooperate.
- Financial gain is a strong incentive to associate and cooperate, as was seen in the poultry sector. Invoke it by finding buyers who will source from many small producers if they are organized to collect and deliver the required quantity and quality of goods.
- Give technical, financial and material assistance needed to motivate changes and upgrade on a meaningful enough scale to remove as much risk as possible at each level of the value chain.

2. How can sector selection and value chain analysis tools be used and/or adapted to a post-conflict situation and the need for quick action?

Conclusions

- Import substitution is an effective sector selection strategy.
- Applying an integrated "matrix" package of assistance that combines interventions in the enabling environment and cross-cutting sectors with direct value chain interventions will create faster and broader impact than value chain assistance alone.
- Transactional assistance will be needed in addition to systemic level assistance.

Import substitution is a useful selection strategy to identify products that enjoy strong and consistent domestic demand and that are commercially feasible to produce locally. Additional criteria would be modest investment requirements and the presence of adequate human capacity to undertake production, complemented by a supportive enabling environment.

In an environment where production, government, social and physical infrastructure have been severely damaged, an approach combining transactional and systemic-level value chain assistance with enabling environment and cross-cutting market interventions will have broader and quicker impact on economic recovery than an approach limited to assisting individual value chains. Value chain analysis is nevertheless extremely effective for identifying many of the

cross-cutting constraints on economic recovery of the country in general, as well as the chains in particular, and then organizing an integrated response.

Recommendations

- Look for links between basic livelihood/food security activities and profitable market opportunities, as in the case of poultry production.
- Use an import substitution lens to identify underdeveloped domestic chains that have much greater market potential indicated by strong demand currently being met by imports.
- Apply a further filter when considering import substitution by looking for products that have consistent and wide demand, relatively low basic start-up costs and human capacity requirements that can be met without too much difficulty.
- Use the value chain assessment process to identify the cross-cutting markets and business enabling environment constraints that affect the value chain as well as the larger economy, and then design the intervention to address those constraints as well as those specific to the value chain in a "matrix" approach to increasing economic growth and competitiveness.
- Use a systemic approach to address cross-cutting market constraints.
- Use a transactional approach to the value chain constraints when needed to demonstrate success and create "demand-pull" ripple effects along the whole chain.

3. How can strategic subsidies be used to lay the groundwork for an eventual transition to a market-driven economy with minimal or no market distortion?

Conclusions

- Subsidies can be instrumental in mitigating risk sufficiently to enable value chain participants to try new markets and adopt new technologies to meet those markets' requirements.
- Subsidies and capacity building can be granted in small but sufficient amounts to destitute people, who will turn them into commercially viable enterprises if there is unmet market demand for the product.

"Subsidy" is used here to mean direct financial or material assistance to private individuals and businesses. Subsidies make sense in Afghanistan, and indeed can lay the groundwork for transition to market-driven activity. In most, if not all cases, subsidies have consisted of productive assets (or upgrades to assets) or take the form of substantial risk mitigation for the participants. These two actions—replacing assets, i.e. the means of production, and removing the risk of experimentation—are essential to create more private-sector activity in an environment where most people have lost much of their means of support and are fearful of losing more.

Recommendations

- Use subsidies in activities that will have a strong demonstration effect. Remove as much risk as needed to incentivize a producer or exporter to try something new that, if shown to be successful, will be adopted by the rest of the participants and increase the competitiveness of the chain.
- Use subsidies on a declining scale as the demonstration effect kicks in.
- Use subsidies to supply the means of production to those who would not otherwise be able to access them.
- Give enough subsidy to enable the recipient to grow it, rather than consume it.

- Build sufficient capacity to enable the recipient to use the assets productively and provide ongoing support until the entrepreneur is ready to "graduate."
- If substantial subsidies and capacity building have been given at several points along the chain, do not withdraw the subsidies and support until some players at each level along the chain are sustainable. The failure of one level in the chain (e.g., input supplies) can bring the whole chain down.
- When creating an operation under a project that will be transferred to non-project ownership at the end, start working on the exit/transfer strategy at the design phase and make achieving it well before the project end date a top priority. Have a contingency plan if funding ends early so the initial investment is not for naught.

I. INTRODUCTION

A. OVERVIEW OF AFGHANISTAN

Although it is strategically situated along historical trade routes and has considerable geopolitical importance, Afghanistan has very limited natural resources, industry or commerce apart from a rudimentary agricultural sector and the now exploding opium trade. There has never been a tax base or legitimate indigenous source of revenue for financing the government, which accounts in large part for the historical impotence and ineffectuality of most former central governments. Each successive regime was largely dependent on external aid from international benefactors interested in influencing Afghanistan's internal affairs.

Afghanistan is one of the poorest countries in the world, and the last few decades of war have seriously disrupted its mainly agricultural economy (as much as 80 percent of the population is involved in agriculture). As economic growth stopped and then became negative after the Soviet withdrawal in 1989 and the ensuing civil war, banditry, looting and smuggling became the means of survival for many. Millions of others had no choice but to abandon their homes and seek refuge in Pakistan, Iran or elsewhere. The illicit opium trade is the one economic activity that not only survived, but flourished, during and after the war. Now it accounts for more than half of GDP and is said to involve corrupt government officials at every level. Tribal warlords control the poppy-growing areas, using the proceeds to fund their militias and arms purchases.

Through the poppy/opium value chain, warlords control access to land and credit for much of the rural landless. Poor sharecroppers must agree to grow poppy to get access to the land and credit they desperately need to support their families; they use part of the land to grow other crops for their own use.

At least a century of bitter ethnic rivalry is at the root of the continuing conflict in Afghanistan and remains the largest obstacle to establishing a viable state and enduring peace. The major ethnic groups of Afghanistan are the Pashtun (40 percent), Tajik (27 percent), Uzbek (9 percent) and Hazara (9 percent). Ethnic, tribal and clan loyalties have always been far stronger than any loyalty to the central government. Tribal warlords have long acted as proxies for a central government, exerting varying degrees of authority over their ethnic and regional populations by a combination of force—their own militias—and patronage. The central government has never been able to extend its reach much beyond Kabul and the larger cities to provide services such as infrastructure, education and security. The warlords have traditionally filled this vacuum (often with the tacit agreement of the central government), thereby winning the gratitude and the allegiance of the populace.

Throughout the last 30 years, chronic economic desperation has pushed much of the population further into the arms of their various tribal leaders, deepening ethnic factionalism as the strongmen struggled with each other for dominance and resources, especially in the 1990s after the Soviet withdrawal. With opium to buy weapons and pay militia members, they were able to offer citizens what their government could not: protection and income. Throughout the last century and continuing to this day, numerous external actors wishing to influence Afghanistan's internal balance of power have provided extensive financial and military support to strengthen their favorite warlord and/or weaken the central government. Even now, much of the rural population is not receiving services or sustenance on any meaningful scale from the new national government. Their survival and loyalties are still bound up with their regional leaders and warlords, to the detriment of any allegiance to the state or concept of national identity.

The new Afghan government is still very fragile and coming under increasingly violent and numerous attacks from the Taliban insurgency in the southeast, which is increasingly encroaching on Kabul. Meanwhile, the old ethnic and tribal rivalries have not by any means evaporated. Most observers say that increased international support will be necessary (though not necessarily sufficient) for several years or even decades to come to quell the violence, establish security

and entrench a democratic form of government. Others say it is an impossible task because of the underlying ethnic divisions and endemic cultural opposition to any form of central (perceived by citizens outside Kabul as "external") authority. Refusal to recognize the national government's legitimacy naturally strengthens the warlords' hold on their own political and economic power, which is by definition inimical to the central government's enforcement of the rule of law, security and proper economic governance of the nation.

B. DONOR PROGRAMS IN AFGHANISTAN

There are many multilateral and bilateral donors funding assistance of many kinds in Afghanistan. A large number of these are working in agriculture and enterprise development (usually related to agriculture), summarized here: the GTZ-funded Project for Alternative Livelihoods (PAL) in eastern Afghanistan; JICA's Integrated Rural Development Program in northern and central regions; USAID's Alternative Livelihood Programs (ALP) in the northern, eastern, and southern regions, as well as USAID's Afghanistan Small and Medium Enterprise Development (ASMED) program working in the northern, western and southern regions; and numerous NGOs. The Asian Development Bank is funding the Afghanistan Rural Business Support Project, which will establish Rural Business Support Centers in four districts in Balkh, Bamiyan, Kandahar and Nangahar provinces.

C. RELATIONSHIP TO THE RELIEF-DEVELOPMENT CONTINUUM

The purpose of this and the other case studies in a joint research effort is to answer the question of whether value chain analysis and programming is at least a partial solution to the question of how to balance meeting urgent needs with sustainable and equitable development. Does value chain analysis provide the necessary information for an appropriate intervention?

RAMP and ASAP were clearly at the development end of the continuum, employing fairly straightforward rural and economic development strategies. However, the first project Chemonics implemented in Afghanistan, the Afghanistan Quick Impact Project (AQIP), was at the relief end of the continuum. It was nevertheless conceived with the intent of restoring conditions necessary for the population to resume sustainable economic activity, based on past successful, economic activities prior to the conflict. AQIP's intent was to increase income in rural populations in devastated areas by resurrecting the mainstay of their livelihood—agriculture—and thereby contributing to political stability and.peace. Chemonics was one of the first development firms to implement an AQIP project under USAID's Afghan Rehabilitation Emergency Program in 2002-2003. It was a cash-for-work program that hired community labor for public works. In 18 months the program managed to rehabilitate 38,851 hectares of irrigation canals for 52,850 families; build 35 kilometers of secondary farm-to-market roads serving 1,751 households; and build 48 commercial and community wells in three districts of the Shomali Plain. These activities prepared the ground, literally, for the agricultural enterprise development and market-oriented value chain approach that RAMP began in 2004 in the Shomali Plain and then expanded to other areas.

D. DESCRIPTION OF PROJECTS STUDIED

RAMP (USAID, June 2003-2006) was a $145 million project designed to increase the marketable value of agricultural output in Afghanistan by $250 million. The program consisted of four technical components: (1) agricultural technology and market development; (2) infrastructure; (3) rural finance; and (4) institutional capacity building.

RAMP focused its activities in five geographic regions that were selected based on population density, high potential for agricultural production, presence of regional market centers and potential transportation links to major markets. The strategy employed as described in RAMP's final report was a market-driven value chain approach that first identified the agricultural products in highest demand domestically and regionally, then mounted interventions to assist in the production, processing and marketing of those goods. The infrastructure and finance components of the

project contributed significantly to increasing the value of all agricultural products in Afghanistan, not just those with which RAMP worked.

ASAP is the follow-on to the RAMP project, and is also being implemented by Chemonics. It is a 40-month program that started in late 2006 with a budget of $61.7 million. ASAP's objectives are first to accelerate relevant agricultural technology generation and transfer with an increased focus on marketing of high-value commodities, competitiveness, sustainability and natural resource management, and second, to improve the capacity of the Ministry of Agriculture, Irrigation, and Livestock to support more competitive, market-led agriculture and agribusiness. The project has two components: (1) competitive private sector agriculture and (2) supportive and enabling public sector.

RAMP worked extensively with the grape/raisin and poultry value chains among others, and ASAP has resumed work in both of these subsectors. There was a hiatus of about five months between the projects, and it is evident that efforts were made to incorporate lessons learned from RAMP's work into ASAP's design and work plan. Several of the staff and partners working in the value chains under RAMP are now working with ASAP, which has provided continuity and the benefit of institutional knowledge. For the purposes of this study, the research team viewed the work completed under RAMP and ongoing under ASAP more or less as a continuum.

E. INTRODUCTION TO THE VALUE CHAINS STUDIED

GRAPE/RAISIN VALUE CHAIN

Grapes and tree crops such as apricot, almond, walnut and pistachio, among many others, are important sources of food and income in much of Afghanistan. Grapes provide income for farmers, and raisins historically have provided export earnings for the country. The value chain comprises thousands of smallholder farmers who sell most of their crop to traders at the farm gate, as well as some who sell in their own local market and a very few who sell at the district level or export. Table grapes have a short shelf-life, especially without refrigeration and protective packaging—virtually unavailable in Afghanistan—so most farmers dry the majority of their grape harvest and sell it in the form of raisins. Raisins are much more easily stored, packed and transported by traders to market or processors. Despite the nominal existence of farmer associations, they do not pool their product for processing or selling. Raisins typically change hands many times between the farm gate and wholesaler with numerous traders involved. Most of the grape harvest is sold in the domestic market by traders and wholesalers, who export some portion of the raisins to the region.

Taifee Grapes

RAMP subcontracted Roots of Peace, a California-based NGO, to undertake the Grape Revitalization for Afghanistan Productivity and Empowerment (GRAPE) subproject from March 2004 to June 2006 with a budget of $6.1 million. GRAPE's goal was to quickly revitalize the grape and raisin industry. The objective of the project was to build vertically linked production and marketing systems in the major grape-growing regions of the Shomali Plain and Kandahar. The project tested new export channels for fresh grapes and raisins, helped merchants export to these markets and worked extensively with farmers to improve the quality and quantity of their products and link them to merchants. It included the following components:

- Technical knowledge transfer
- Extension system

- Model farms
- Market/collection centers
- Nurseries
- Farm ownership model
- Promoting domestic and international market linkages
- Communication of market information

ASAP took up the work in the value chain where RAMP ended. The activities were a continuation of developing targeted grape and raisin extension packages and demonstration activities; identifying potential connector firms (i.e., fresh and dried fruit associations, wholesalers, exporters, raisin cleaning line owner/operators); and implementing extension, human capacity, market linkages, marketing and infrastructure activities.

POULTRY VALUE CHAIN

A RAMP value chain assessment of the poultry subsector, conducted in 2004, found that 99 percent of Afghanistan's chickens were raised using a "backyard scavenger system," and that these were almost exclusively owned by women.

Rudimentary Chicken Coop

High mortality due to disease and low egg production due to poor feeding rendered the productivity of these chickens insufficient to meet domestic demand for both eggs and meat. Thus eggs and live birds were imported from Pakistan and Iran, and frozen chicken meat was imported from Brazil and the United States to supply about 90 percent of what was sold in the urban markets. Village producers sold what surplus eggs and live birds they had locally or to traders who transported them to urban markets. There were also some peri-urban producers who used a more sophisticated, semi-commercial approach to rearing chickens. They marketed from their home or through local market channels.

Rural and urban veterinary services were being revived throughout the country following the fall of the Taliban. Input suppliers included a few intermittently operated small hatcheries. There was no industrial feed mill, so feed was imported from Pakistan and Iran.

RAMP subcontracted the Food and Agriculture Organization (FAO) to implement a rural poultry production project from early 2004 to June 2006. The project had a budget of about $3.5 million and trained 28,000 village women in improved breed poultry production throughout seven provinces. The project also created five provincial centers that included small feed mills and refrigerated storage for vaccines. The centers also served as collection points for marketing eggs brought by the group leaders to sell to traders. This model was created to give producer groups continuous access to the training, inputs and market linkages critical to raising improved poultry breeds successfully.

ASAP was poised to build on this investment in capacity, taking it to a fully commercialized level of poultry production. The plan was to create a vertically integrated poultry production enterprise including a hatchery, improved breed parent stock to produce the eggs for the hatchery, a feed mill, pullet rearing and layer farms.

F. STEPS IN STUDY PREPARATION

The goal of this study is to gather empirical evidence to support or disprove the notion that value chain analysis is an effective tool for restoring market-based economic activity in a severely conflict-affected environment. The research team examined the role of the value chain approach in the conception and execution of RAMP and ASAP in Afghanistan, as well as whether the value chain approach was a significant determining factor in the impact achieved.

A significant amount of initial desk research was carried out in Washington, D.C. based on current books and articles on the political and economic plight of Afghanistan and many relevant project reports. During this time draft of the conflict assessment was developed using USAID's Framework for Conflict Assessment. The team also gained a basic understanding of the projects' design and implementation, as well a basic knowledge of the grape/raisins and poultry value chains. Following several weeks of desk research, almost three weeks of field research were conducted in Afghanistan in late October, 2007.

The research team focused on understanding the methodology of the project interventions and effects in terms of three research questions, rather than on producing updated value chain analyses, as limited time and money prohibited doing both. The limited research time in Afghanistan was spent interviewing project beneficiaries and stakeholders to learn whether and how the value chain approach had been applied, and ground-truthing desk research. Security was a significant constraint to movement, even within Kabul. The Shomali Plain was the major focus of the grape/raisin chain interventions, and had many poultry producers representative of those assisted in the other districts. However, it was necessary to severely limit the number, length, and distance of trips to the Shomali Plain due to the risks of travel. Extensive access to many of the local and expatriate project staff and subcontractors who worked on both RAMP and ASAP afforded a sense of the progression and impact of the activities. Also useful was the ability to interview a number of value chain participants and other stakeholders at the agricultural fair that took place on the outskirts of Kabul. These included banks, traders, fertilizer and input suppliers and exporters. A list of interviewees is provided in Annex B.

Hillside Dwellings in Kabul

II. ANALYSIS OF THE CONFLICT ENVIRONMENT IN AFGHANISTAN

To fully appreciate the extent of conflict in Afghanistan, it is helpful to briefly revisit the main political events in the country during the last century. Modern Afghanistan was created in 1919 when Britain and Russia accorded its independence after decades of competing for control of the area. The borders had been drawn in 1893 by Britain, splitting the Pashtun ethnic group between what is now Pakistan and Afghanistan—a decision which continues to have profound consequences for both countries to the present day.

Afghanistan was established as a monarchy, and a Pashtun king was installed. From 1933 to 1973 the country was ruled by King Zahir Shah, who attempted to unify the country by forcibly abolishing traditional ethnic rivalries and introducing the supremacy of secular over Islamic law. A democratic constitution was adopted in 1964. In the late 1960s, however, political instability developed. In 1973, a former prime minister who had strong ties to the Soviet Union staged a coup while the king was out of the country, and installed himself as president. There was another successful coup in 1978 by the Communist People's Democratic Party. Soviet financial support and political influence had been steadily increasing during this time, as did its role in the Afghan army and government. But internal Afghan politics were becoming increasingly fractious, and the Soviets invaded the country in December 1979, allegedly to prevent the total collapse of the government. Soviet interest in Afghanistan included, among other things, a route to the sea. If they allowed the country to implode in civil war, it would cut off their access.

The 10 years of Soviet occupation occurred at the height of the Cold War, and Afghanistan became a pawn in the contest for power between the U.S. and its allies and the Soviet Union. Pakistan, the U.S. and Saudi Arabia supplied various anti-Soviet factions in the south, east and north of Afghanistan with billions of dollars worth of arms throughout the decade. The U.S. wanted to keep the Soviet Army fully occupied in Afghanistan, while Pakistan and Saudi Arabia hoped to dislodge the Soviets for a variety of strategic, political and religious reasons. In addition, Iran was supporting the Hazara in the west on its border with Afghanistan, as the Hazara, like the Iranians, are Shia Muslims—a despised minority in mostly Sunni Afghanistan.

In 1989 the Soviets withdrew from Afghanistan, leaving behind a substantial power vacuum. It marked the beginning of the country's descent into anarchy and terrible suffering for most of the populace. The numerous ethnic and regional factions that had fought a guerrilla war against the Soviets with external support now turned their firepower on each other and the citizenry in an all-out bid for control of the country. The resulting destruction of communities, infrastructure, the economy and the few remaining political institutions was horrific—as was the loss of life and livelihoods of millions of unfortunate Afghans.

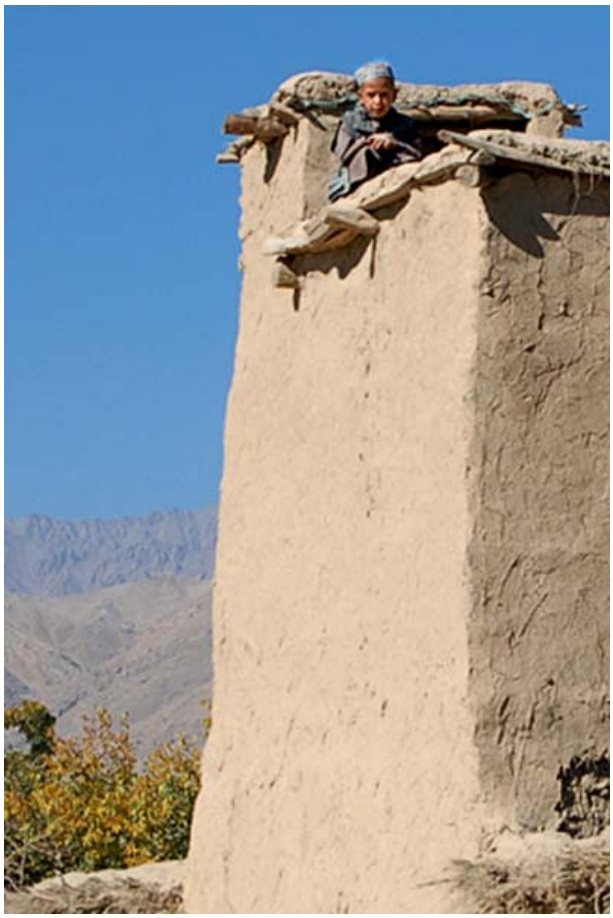
Out of this chaos emerged the mostly Pashtun Taliban in 1994 in the east, which began wresting control of parts of the country away from the more predatory tribal leaders and clans. With support from Pakistan, by late 1996 they had seized Kabul and installed their radical Islamist regime. Only Pakistan and Saudi Arabia recognized the new self-proclaimed government. A mainly non-Pashtun opposition, comprised of remnants of the Northern Alliance which the U.S. had supported against the Soviets, retained control of parts of northeastern Afghanistan under the leadership of Ahmad Shah Massood. It was during this time that Osama bin Laden took refuge in Afghanistan under the Taliban's protection. He provided much-needed financial support and political advice to the Taliban in return for sanctuary for himself and Al-Qaeda.

After the attacks by Al-Qaeda on the World Trade Center in September 2001 and the Taliban's refusal to hand over Osama bin Laden, an international coalition led by the United States bombed Afghanistan in retaliation and helped the opposition forces take Kabul from the Taliban in November. Kandahar—the geographic origin of Taliban—fell in December to the international forces, seeming to signal the end of the Taliban, but their leader, Mullah Omar, managed to slip away. He and many of his Taliban compatriots disappeared across the border into Pakistan, where they have been orchestrating the current Taliban insurgency from ever since.

A conference in Bonn in December 2001 established the Afghan Interim Authority led by Hamid Karzai. International peacekeeping forces under the UN began arriving in January 2002. In 2003 NATO took command of these forces and pushed out from Kabul into the north in 2004, west in 2005 and south in 2006 using Provincial Reconstruction Teams (PRTs): small civil-military units to aid communities with reconstruction and security, and to bolster the central government's authority. The U.S. continued military operations in the southeast to flush out remaining Taliban and Al-Qaeda members. The Bonn agreement launched a process that resulted in the adoption of a moderate Islamic constitution in January 2004, the popular election of President Karzai in October 2004, and National Assembly and Provincial Councils in September 2005.

The Pashtuns have supplied most of the centralized government leaders since the state's creation, including the kings during the monarchy. This is resented by the other ethnic groups, and as a result they are suspicious of any Pashtun involvement in the formation of government as yet another attempt to dominate them. President Karzai is Pashtun, which was and still is cause for concern for the legitimacy and longevity of the current government.

Boy in Lookout Tower Guarding Family's Fields



Despite the installation of these democratic processes and institutions, Afghanistan is still a very fragile state, with many areas still engaged in violent conflict. The International Crisis Group (ICG) reports several reasons for concern about Afghanistan's stability, addressed later in this section. The following pages look at the many underlying causes of conflict in Afghanistan and the outlook for a lasting peace.

A. INCENTIVES FOR VIOLENCE

ETHNIC AND RELIGIOUS DIVISIONS

At least a century of bitter ethnic rivalry is at the root of the continuing conflict in Afghanistan and remains the largest obstacle to establishing a viable state and enduring peace. The major ethnic groups of Afghanistan in descending order of size are the Pashtun (40 percent) Tajik (27 percent), Uzbek (9 percent), and Hazara (9 percent). Ethnic, tribal and clan loyalties have always been far stronger in Afghanistan than any loyalty to the central government. Tribal warlords have long acted as proxies for a central government, exerting varying degrees of authority over their ethnic and regional populations by a combination of force—their own militias—and patronage. The central government has never been able to extend its reach much beyond Kabul and the larger cities to provide services such as infrastructure, education and security, so

the warlords have traditionally filled this vacuum (often with the tacit agreement of the central government), thereby winning the gratitude and the allegiance of the populace.

Afghanistan has been called an artificially created state whose inhabitants have never identified themselves first and foremost as citizens of the country of Afghanistan. "What we know as 'Afghanistan' was far from being a single ethnic, cultural or even political idea in any period of history…The 'idea of nation' that various regimes and rulers tried to develop did not mean anything to most Afghans. Only a minority of political staff and intellectuals in the capital, Kabul, subscribed to the suggestion of a mainstream identity."[1] Ironically, some scholars blame the lack of political identity on the fact that though the Russians and the British created Afghanistan in 1919, they never properly colonized the new state, thereby depriving its citizens of the formative experience of being indoctrinated (by force if necessary) as a unified political entity.

Afghans are notoriously independent and proud. Most of the population lives in rural areas isolated from each other and from the reach of the central government. These conditions have reinforced the atomization of Afghan society into more or less self-governing village or clan units where local (and often esoteric) customs prevail. Even the interpretation and practice of Islam—potentially a unifying force—varies widely from the northern provinces to the southeastern provinces, contributing to inter-ethnic (even intra-ethnic) intolerance and distrust, and attempts to dominate each other that go back decades. This ethnic division is further compounded by an overarching culture that places honor above all else and demands vengeance (usually in the form of violence) for perceived breaches of honor, be it the honor of an individual, nuclear family, clan or tribe. Endless cycles of retribution for past wrongs have locked families and tribes into a pattern of internecine violence that still permeates Afghan society. This would seem to bode ill for the emergence of a united national identity upon which to build a strong, stable, central government capable of providing the peace and prosperity most Afghans have never experienced.

ECONOMIC

Although it is strategically situated along historical trade routes and has considerable geopolitical importance, Afghanistan has very limited natural resources, industry or commerce apart from a rudimentary agricultural sector and the now exploding opium trade. There has never been a tax base or legitimate indigenous source of revenue for financing the government, which accounts in large part for the historical impotence and ineffectuality of most former central governments. Each successive regime was largely dependent on external aid from international benefactors interested for their own reasons in influencing Afghanistan's internal affairs.

Afghanistan is one of the poorest countries in the world, and the last few decades of war have seriously disrupted the economy, which is mainly agricultural. As economic growth stopped and then became negative after the Soviet withdrawal in 1989 and the ensuing civil war, banditry, looting and smuggling became the means of survival for many. Millions of others had no choice but to abandon their homes and seek refuge in Pakistan, Iran or elsewhere. The illicit opium trade is the one economic activity that not only survived, but flourished, during and after the war. Now it accounts for more than half of GDP and is said to involve corrupt government officials at every level. Mainly it is the tribal warlords who control the poppy-growing areas, using the proceeds to fund their militias and arms purchases. Obviously they have no incentive to relinquish their individual fiefdoms, nor the opium trade that sustains their power base.

Through the poppy/opium value chain, warlords control access to land and credit for much of the rural landless. Poor sharecroppers must agree to grow poppy to get access to the land and credit they desperately need to support their families and are able to use part of the land to grow other crops for their own use. It has been observed that a major land reform program would remove much of the cause of continuing political instability and strife by giving a

[1] Centlivres, Pierre and Centlivres-Dumont, Micheline. "State, National Awareness and Levels of Identity in Afghanistan from Monarchy to Islamic State," *Central Asian Survey,* vol. 19, nos. 3 and 4, pp. 419-28.

majority of the population a vested interest in peace through provision of land and thus the means to ensure their own survival. This would eviscerate the traditional system of patronage and dependency that keeps so much of the population beholden to one strongman or another and reinforces the factionalization of the country into semi-autonomous districts in competition with each other.[2]

This continuous quest for control of territory (as much in the political as in the economic sense) seems to have been the driving motivation behind so many decades of ethnic rivalry and violent strife. The major ethnic groups are each generally identified with their own geographic region of the country, and none is willing to submit to the political rule of another. The literature suggests this is rooted more in a fierce insistence on self-determination and fear of domination than the quest for economic resources. Using a divide-and-rule strategy, the Soviets pitted ethnic groups against each other in the 1980s to prevent a united opposition from forming. They gave preferential treatment to the minority Tajiks and Uzbeks who formed the majority of the trading and bureaucratic classes, and punished the majority Pashtuns for their refusal to follow Soviet reforms. The Soviet policy causing the most lasting and tragic damage to Afghan society was to recruit and arm ethnically based militias. These later became the major fighting forces of the ethnically divided struggle for control that erupted after the Soviets left. It was a ruthlessly successful strategy to fan the embers of ethnic rivalry into rank hatred, which almost guaranteed the interethnic war and continues to fatally undermine the chance for national unity and political stability.

B. CONFLICT MOBILIZATION AND EXPANSION DYNAMICS

ORGANIZATION

As described above, historically, ethnic and tribal leaders have stepped into the breach left by an all but nonexistent central government. They have staked out their territory, hired armies, and bought the local citizenry's loyalty. These leaders and their followers are unwilling to be governed or dominated by any other group, and are all too willing to fight to maintain their independence and to increase their respective power bases. So the fundamental organizational lines of the conflict are ethnic and tribal.

In the case of the Taliban, however, the organizing factor for the conflict was sectarian religion. While the Taliban were predominantly Pashtun, they mobilized around the notion of installing a newly radicalized vision of Islam in Afghanistan and beyond, to replace the anarchy and destruction that took place in the early 1990s after the Soviet pullout. Mullah Omar of Kandahar emerged as a leader of young radicalized Afghan men who had grown up in refugee camps in Pakistan, where they were schooled in *madrassahs* in a much more conservative brand of Islam than was practiced by most Afghans. These youths were inflamed with hatred for the non-Muslim world and zeal to take back their country and remake it as an ideal Islamic state that would provide the genesis for a larger pan-Islamic movement throughout the Middle East and beyond.

The Pakistani factions that gave rise to the Taliban naturally sympathized with their cause from the beginning and supported it, as they still do. International pressure on Pakistan to stop providing refuge and material support to the Taliban has increased sharply in the last year, but the insurgency seems to be growing stronger and bolder, not weaker.

FINANCIAL AND HUMAN RESOURCES

Chronic economic desperation pushed much of the population further into the arms of their various tribal leaders, deepening the ethnic factionalism as the warlords struggled with each other for dominance and resources, especially after the Soviet withdrawal. With opium to buy weapons and pay militia members, warlords were able to offer citizens what their government could not: protection and income. Throughout the last century and continuing to this day,

[2] Misra, Amalendu. *Afghanistan, The Labyrinthe of Violence*. Polity Press, Cambridge, UK, 2004, pg. 176.

numerous external actors wishing to influence the internal power balance in Afghanistan have provided extensive financial and military support to strengthen their favorite warlord and/or weaken the central government. Even now, much of the rural population is not receiving services or sustenance on any meaningful scale from the new national government. Thus their survival and loyalties are still bound up with their regional leaders and warlords, to the detriment of any allegiance to the state or concept of national identity.

C. INSTITUTIONAL CAPACITY OF THE STATE TO RESPOND TO THE CONFLICT

Since the late 1970s, Afghanistan has been a *de facto* failed state. "A state can gain this ignominious status if it fails to maintain the rule of law, promote human rights, and provide effective governance and deliver public goods to its citizenry, including education, healthcare, and basic economic growth."[3] One would be very hard pressed to find a more accurate description of what occurred in Afghanistan after the Soviets left in 1989 than the following statement: "Because of the civil strife, economic collapse and breakdown of the welfare system, the inhabitants of a failed state are likely to: (a) flee to neighboring countries as refugees; (b) organize themselves along ethnic and tribal lines and establish independent fiefdoms; (c) engage in illicit economic practices, including smuggling of arms and contraband, mining, drugs production and drug trafficking; and (d) threaten the stability of their neighbors."[4]

REGIME TYPE AND LEGITIMACY

The various forms of central government tried in Afghanistan since its creation in 1919 have never been capable of truly ruling the country beyond Kabul and some of the larger cities; they did not have the financial resources nor the political legitimacy to do so. Even during the relatively peaceful and stable years of the monarchy (1919 to 1973) the central government depended on the tribal leaders' cooperation and support. They governed their wild and far flung territories with virtual autonomy and impunity. Thus the strength of ethnic and tribal rule has always trumped any allegiance to or identification with the government in Kabul. "[T]ribal societies like that of Afghanistan are by nature unfit to act as the basis for the formation of modern states, the needs of which are in direct opposition to their traditions of 'ordered anarchy.'"[5]

In light of this discouraging analysis, it is not surprising to find the current post-Taliban government struggling against the same centripetal forces that have always plagued Afghanistan: ethnic recalcitrance, contested political legitimacy, the formidable geography and the dearth of economic resources. The main difference now is direct, sustained intervention and support from the international community in the wake of the U.S. bombing and the Taliban's collapse in November 2001. Significant progress toward installing the institutions of a democratic government was initially made after the Bonn conference in December 2001: A new constitution was drafted and adopted, an interim government was chosen, legislative elections took place and a presidential election was held. All of this happened with considerable military, political and financial support from the United Nations, NATO, the United States, the European Union and many other countries.

But the new Afghan government is still very fragile and coming under increasingly violent and numerous attacks from the Taliban insurgency in the southeast, which is increasingly encroaching on Kabul. Meanwhile, the old ethnic and tribal rivalries have not by any means evaporated. Most observers say that increased international support will be necessary (though not necessarily sufficient) for several years or even decades to come to quell the violence, establish security and entrench the democratic form of government. Others say this is an impossible task because of the underlying ethnic divisions and endemic cultural opposition to any form of central (perceived by these citizens outside

[3] Ibid. 3.
[4] Helman, Gerald B. and Ratner, Steven R. "Saving Failed States," *Foreign Policy*, vol. 89 no. 4, 1993. Pp.7-8
[5] Lieven, Anatol. "Afghan Statecraft," *Prospect*, Issue 70, Pg.27.

Kabul as "external") authority. Refusal to recognize the national government's legitimacy strengthens the warlords' hold on their own political and economic power, which is by definition inimical to the central government's enforcement of the rule of law, security and proper economic governance of the nation.

D. REGIONAL AND GLOBAL FORCES AFFECTING CONFLICT DYNAMICS

"A failed state with deep-seated intertribal rivalry, absolutely no economic strength, and an extremely important geostrategic location make Afghanistan a perfect arena for regional and world powers to try out their power projection in the region."[6] Afghanistan was the pawn of competing external powers for much of the last century. An astonishing array of countries has meddled in the internal affairs of Afghanistan throughout the past century to serve their own interests and/or harm their enemies' interests. Britain, Russia, Iran, Pakistan, the USSR, the United States, Saudi Arabia and several others are implicated, and several bear significant responsibility for Afghanistan's utter collapse after the Soviet withdrawal in 1989, which led to the Taliban's takeover and ultimately to Al Qaeda's ruinous involvement with the country.

Pakistan, being the closest neighbor geographically, ethnically and religiously, has always had major interest in and ample opportunity to affect Afghanistan's political stability. The motives are evidently mixed between economic and religious/political. Pakistani government and business interests have long sought control of the trade routes through northern Afghanistan to the Caucasus and Central Asia for access to the oil and gas reserves there. Islamabad also wishes to weaken Iran's influence in these areas, and has pursued various destabilizing tactics through the years to keep the central government in Kabul weak.

On the other hand, the ultra conservative Islamic groups in tribal areas along the Afghan-Pakistani border want to see Afghanistan controlled by religious leaders subscribing to their brand of Islam (the Taliban), and have duly provided financial, military and moral support as well as safe haven from foreign and Afghan military counterattacks. Pakistan has a significant Pashtun population in the north that has long interacted with their Pashtun neighbors in Afghanistan. Because Pashtuns are the ethnic majority in Afghanistan, the Pakistani Pashtuns have been able to exert considerable political influence through them in Afghanistan.

Whenever Islamabad has felt its own interests were threatened by events in Afghanistan, it has used its influence to reverse the situation. It has "nurtured, supported, and promoted political parties, ethnic factions, religious groups, warlords and political leaders if they appeared to be subservient to Pakistan's long-term interest. In other words, Pakistan actively pursued a policy of strategic offence against any group or faction which was inimical to Pakistani interests. It created leaders, then pulled the carpet from under their feet if they tried to be independent of Islamabad."[7]

During the Soviet occupation, Pakistan, with some $8 billion of financial and military support from the United States, trained and armed some 100,000 *mujahideen* fighters in seven official training camps inside Pakistan. Trafficking in narcotics and arms grew enormously during this time. Pakistan also hosted millions of refugees during and after the Soviet occupation, inculcating countless numbers of them in the religious schools with a violent Islamic extremism that led to the Taliban movement.

Iran, on the opposite border from Pakistan, also has significant interests and influence in Afghanistan. The Hazara and Tajik ethnic groups speak Dari, a strain of Persian, and many of the Hazara are Shia Muslims, as are Iranians. But Teheran also had geopolitical designs on Afghanistan. It wanted to provide a sea route to the Islamic Central Asian Republics—created out of the wreckage of the Soviet Union—which would require a land corridor through

[6] Misra, 2006. pg. 7.
[7] Misra, Ibid. Pg. 31.

Afghanistan from Iran's port in Bandar Abbas on the Indian Ocean. Pakistan regarded these ambitions as harmful to its own interests in Central Asia and has interfered with Iran's overtures to these countries. Iran has also attempted to establish religious and cultural relations with these countries to further its ideological and strategic interests there, reaching out to bolster the Shia Muslims there as they did in Afghanistan. This was opposed by the Saudis, who wished to establish their brand of Sunni Wahabi Islam in the regions.

Saudi Arabia is believed to have provided about half of the estimated $40 billion needed for the U.S.-Saudi-Pakistani-funded resistance to the Soviet occupation. The Saudis' motives for joining Pakistan and the United States in an alliance against the Soviets included anti-communist sentiments, a desire to export Sunni Wahabi Islam, and not least, their planned oil and gas pipeline through Afghanistan. In some ways even more important than the Saudi state's involvement were the private Saudi citizens of religio-political zeal arriving in growing numbers. Some of them even fought with the *mujahideen* against the Soviets. Osama bin Laden and other followers of Al Qaeda were among these Saudi immigrants.

When the Taliban took control of Kabul and declared themselves the new Afghan government, the Saudis and Pakistanis officially recognized the new regime. They remain sympathetic to the Taliban, and the Pakistanis at least are known to be actively supporting them.

The United States' attention to Afghanistan has waxed and waned throughout the past 40 years. In the 1980s the U.S. was mainly interested in wresting control of the area from the Soviets in the Cold War. As mentioned above, the U.S. spent enormous sums arming and training the *mujahideen* to fight the Soviets for almost a decade. The more religiously fanatical and zealous the faction of *mujahideen*, the more attractive they were to support in opposition to the Soviets. Once the Soviets left, the U.S. lost interest in Afghanistan until the 1990s when events in the Middle East including the Gulf War and the Israeli-Palestinian conflict began interfering with U.S. oil companies' access to oil in these regions. New sources of oil were needed, and the newly independent states in Central Asia and the Caucasus region with their proven oil and gas reserves became a focus of U.S. oil companies' interest. They wanted to construct oil and gas pipelines from these countries through Afghanistan and Pakistan for export to the West. They convinced the U.S. administration of Afghanistan's economic importance to the U.S. and when the events of September 11, 2001 exploded, its strategic importance again became horribly clear as well.

E. WINDOWS OF VULNERABILITY FOR CONTINUATION OF VIOLENCE

The International Crisis Group reports several factors that do not bode well for the Karzai government's tenuous hold on power. One is that the war criminals of the post-Soviet period have gone unpunished; indeed, many of the worst offenders are now members of the current local, provincial or national administrations. This has angered the population, sowing mistrust and bitter disillusionment that yet another corrupt, predatory regime has replaced the last. The Afghan National Police is part of the problem; ill trained and badly paid, they are notorious for preying on the citizens they are supposed to protect. The judicial sector is also in need of major reform and strengthening. Poppy cultivation and opium trafficking now dominate the economy at more than 50 percent of GDP. ICG reports that government officials at all levels are involved, constituting both a "source and a symptom of ongoing instability."[8]

As anyone following the news is aware, a Taliban-led insurgency has been increasing in the southern and eastern provinces of Afghanistan, with attacks on the police and army, high profile kidnappings and mounting civilian casualties. Throughout 2007 attacks have been occurring closer and closer to Kabul, with a handful of deadly suicide bombings taking place within the city itself. In August and September army transport buses were bombed, resulting in dozens of deaths and casualties. In January 2008 the main luxury hotel in Kabul—housing mainly expatriate security

[8] *Conflict history: Afghanistan*, International Crisis Group, March 2006

and aid workers—was attacked by suicide bombers. The Taliban claimed responsibility and announced that foreigners and the places they frequent would be targeted henceforth. Significantly, until this year suicide bombings were not the modus operandi of the Taliban. That they are now becoming common is a strong indication that Al Qaeda's influence and tactics are again a driving force within the Taliban and on its regional politico-religious agenda.

F. CURRENT CONFLICT TRENDS AND ANTICIPATED CONFLICT DYNAMICS

Since early 2008, there has been discussion within the government about trying to bring the Taliban into a dialogue in hopes of stemming the violence. In September, President Karzai invited the Taliban and other militants to participate in peace talks. He reportedly offered to negotiate a peaceful role for them in government, even mentioning cabinet posts for Taliban leader Mullah Omar and warlord Gulbudin Hekmatyar. But this olive branch was rejected by Taliban spokesman Ahmadi, who stated that the Taliban's precondition for talking with the Karzai government was the full withdrawal of all foreign troops. President Karzai did not agree to this.

The Karzai government is increasingly unpopular throughout the country, despite its attempts to build support with various giveaway programs, such as free seed distribution. It is widely seen as corrupt and having embraced the very warlords who pillaged the country in the lawless years preceding the Taliban and impotent in the face of rising terrorist violence. On October 30, 2007 the *New York Times* reported that several hundred recruits from half a dozen countries were joining the Taliban ranks, and that they were even more extremist and dangerous than the Afghan Taliban. U.S. military officials told the *Times* that the mercenaries are from Pakistan, Uzbekistan, Siberia, several Arab countries, and perhaps Turkey and western China. This new influx of extremist recruits from outside Afghanistan proves that the militants are regrouping and tooling up to increase their violent opposition to the government, and that prospects for peace and security in Afghanistan in the near term are in peril.

G. EFFECT OF THE CONFLICT ON MARKETS IN AFGHANISTAN

After the fall of the Taliban, donors assumed they were coming into Afghanistan to resuscitate a moribund economy and recreate markets from ruin. Despite the decades of violent conflict, markets and economic activity in Afghanistan continued to function through it all. But the assumption of the international donor community was that most licit economic activity had ceased, and that markets had collapsed on the Taliban's watch. This is the story told over and over in the media and donor reports. Indeed, that is what the research team assumed to be true of Afghanistan until getting well into the research for this study, and it is no doubt what USAID and its many implementing partners, including the RAMP team, expected to find.

Certainly economic *growth* had been drastically curtailed and much of the market infrastructure impaired or destroyed, but economic *activity* had not by any means stopped. While the five-year drought that started in 1998 did have a severe impact on food production and increased hardship and poverty for much of the population, most Afghans had never been food self-sufficient. They had always engaged in various forms of market activity to survive and continued to do so during those lean years, adapting their activities to the more extreme circumstances.

Recent studies assert that there was and continues to be little understanding of the resiliency of Afghan markets, how they function and how they have survived chronic conflict.[9] These observers charge that donors failed to design their interventions based on an understanding of how the markets had evolved under prolonged conflict, which included the emergence of some pronounced inequities and uncompetitive practices. As a result, according to these critics, aid interventions often unwittingly exacerbated market inequities. These assertions go far beyond the scope of this study, but certainly do have some bearing on its research questions and objective of generating some guiding principles for working in a conflict environment and extracting specific best and worst practices. In fact the charges are especially relevant to (and often made about) post-conflict environments where donors and relief agencies have rushed in to begin administering aid without the benefit of a real understanding of the situation on the ground. It is a familiar story: the urgency of meeting basic human needs and sometimes—as in the case of Afghanistan—the imperative to help legitimize a fledgling government with palpable improvements in the lives of the people eclipses the "ideal" approach to mounting relief and development interventions. The ideal approach would begin with thorough on-the-ground assessments of social and economic impact to inform the design of interventions which could then sustainably increase the prosperity and quality of life for the target population without negative side effects.

Roots of Peace Extension Agent Discussing Grape Harvest with Farmer

[9] Paterson, Anna. "Going to Market: Trade and Traders in Six Afghan Sectors." DFID, June 2006. Also, Lister, Sarah and Adam Pain. "Trading in Power: The Politics of "Free" Markets in Afghnaistan." Afghanistan Research and Evaluation Unite (AERU). June 2004. And, Pain, Adam, "Understanding and Monitoring Livelihoods under Conditions of Chronic Conflict: Lessons from Afghanistan," Working Paper 187, Overseas Development Institute, 2002

III. VALUE CHAIN ANALYSES OF GRAPE/RAISIN AND POULTRY SUBSECTORS

Done well, a rigorous value chain analysis using USAID's value chain framework can be very effective for deciding how to strengthen a subsector's economics, technology and relationships in order to be more competitive. It should also be quite an incisive tool for getting to the heart of how a market is functioning, where inequities lie and what uncompetitive practices are ongoing. Using the framework should result in an analysis that indicates the way to design interventions to correct those inequities and imbalances, as well as improve the commercial competitiveness of the sector.

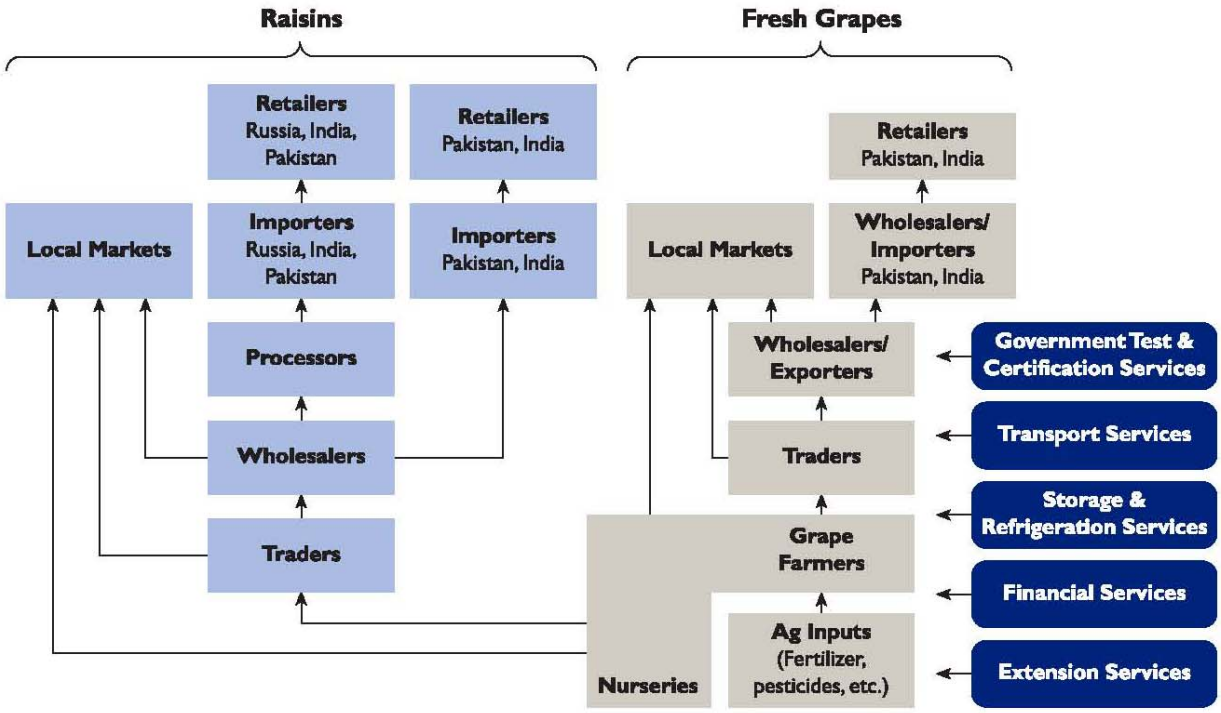
It is the goal of this study to gather the empirical evidence to support or disprove the notion that the value chain approach is an effective tool for restoring market-based economic activity in a severely affected conflict environment. It will examine the role of the value chain approach in USAID's RAMP and ASAP projects in Afghanistan, i.e., the way the work was conceived and executed and whether the value chain approach was significant in achieving impact.

First, we need to know what the value chains looked like and how they were operating prior to any interventions. In this section we present an analysis of the value chain structures, participants and dynamic factors of the grape/raisin and poultry subsectors. This is followed by findings about the opportunities and constraints for each subsector, and a discussion of the intersection between the value chains and the conflict. In Section IV the project interventions and impact are analyzed to answer selected reearch questions.

A. GRAPE/RAISIN VALUE CHAIN

Grapes and tree crops such as apricot, almond, walnut and pistachio among many others are important sources of food and income in much of Afghanistan. Grapes provide income for farmers and historically have provided export earnings for the country. The value chain comprises thousands of smallholder farmers who sell most of their crop to traders at the farm gate, some who sell in their own local market and a very few who sell at the district level or export. Table grapes have a short shelf life, especially without refrigeration and protective packaging—which are virtually unavailable in Afghanistan. Most farmers dry the majority of their grape harvest and sell it in the form of raisins. Raisins are much more easily stored, packed and transported by traders to market or processors. Despite the nominal existence of farmer associations, they do not pool their product for processing or selling. Raisins typically change hands many times between the farm gate and wholesaler, with numerous traders involved. Most of the grape harvest is sold in the domestic market by traders and wholesalers, though a fair portion of the raisins is exported within the region. Figure 1 below is a map of the grape/raisin value chain.

Figure 1. Grape/Raisin Value Chain Map



END MARKETS FOR GRAPE/RAISIN VALUE CHAIN

LOCAL, DOMESTIC, REGIONAL AND GLOBAL MARKETS

In the 1960s, Afghanistan produced some 60 percent of the dried fruits (raisins and apricots) and nuts on the world market. In those days, foreign markets for Afghan raisins included Russia, India and Pakistan. By the end of the Taliban's reign in 2001, grape and raisin production had declined sharply, and what was produced was consumed locally. Today regional markets continue to be the most accessible for Afghan raisins. Historically, fresh grapes were exported on a limited basis to Pakistan, due to the lack of refrigerated storage and transport that continues to be a major constraint for fresh fruit exports. The largest end market for Afghan grapes and raisins is currently Afghanistan itself. In 2003, about $180 million in raisins and grapes were produced in Afghanistan. About $30 million of that was exported in the form of raisins, and about $6.5 million in fresh grapes. The rest was consumed locally. Further processing into juice or jam was not done on a commercial scale, nor is it today. But there is hope that Afghanistan can win back its regional markets for raisins in Russia, Pakistan, India and beyond to the Gulf States, as well as penetrate new markets for its grapes.

END-MARKET REQUIREMENTS

Afghan raisins currently do not meet the quality or phytosanitary standards of "first-tier" markets such as Europe and the United States because of rudimentary drying practices and the use of old, unsanitary processing equipment. Table grapes from Afghanistan could meet the quality demanded in these markets, but until the cold chain from harvest to end consumer is complete, exporting fresh grapes beyond Pakistan is not feasible. Spoilage and general deterioration of the grapes when exposed to long periods of heat and transport over rough roads reduce their marketability and price, resulting in losses for the exporter.

Sun-dried raisins (black and red) sell for less than shade-dried raisins, which are green. The green raisins sell for twice the price of the black ones, even in the domestic market. In India, green raisins dried "organically" (without sulfates),

are especially prized. Sulfates are being experimented with as a quick drying agent but are not widely used in Afghanistan, so the Indian market for green raisins represents a substantial opportunity. China is also a net importer of green raisins, which Afghanistan could potentially supply.

THE COMPETITORS

For table grapes, Iran is Afghanistan's main competition in the regional markets—specifically Pakistan and the Gulf States—because it produces the same varieties at the same time of year for lower cost. Iran's soil is better suited for growing grapes, and its proximity to the Gulf States lowers transportation costs. Uzbekistan also produces grapes of higher quality for lower cost than Afghanistan currently does. On the other hand, China and India are the world's first and second largest producers of grapes, respectively, but their harvest season ends just as Afghanistan's begins; there is unmet demand for fresh grapes in both countries that Afghanistan could potentially supply.

The price of Afghan raisins is competitive with other countries in the region, but Afghan raisins are dirtied by processing techniques and thus of lower quality.

POTENTIAL TO COMPETE

The export potential for fresh fruit such as grapes is currently quite limited because Afghanistan lacks refrigerated storage and transport facilities and has poor packing material and very bad roads—all of which lead to a high percentage of damaged and spoiled product upon arrival at market. This, along with the many intermediaries along the chain to the final end consumer that add incrementally to the final cost, makes Afghan grapes less cost competitive.

As far as raisins go, current harvesting, drying and packaging methods in Afghanistan result in products that do not meet the high quality standards in most international markets. Phytosanitary standards for food imports are too high in first-tier markets such as Europe and the United States for Afghan exports to meet. In addition, testing facilities for certifying raisins against international grades and standards are extremely limited, and some required tests are not available at all. But there is a long tradition of Afghan raisins being sold in the markets of Pakistan, India, Russia and other regional neighbors that has not been forgotten. There is interest today from these countries in sourcing raisins, nuts and other dried and fresh fruit from Afghanistan. Thus, market assessments by RAMP determined that fresh and dried fruits and nuts had the greatest *potential* of many other products for exports to the region.

UNTAPPED MARKETS OR DEMAND

As mentioned, demand still exists for Afghan raisins in what were Afghanistan's historical markets around the region: Pakistan, India and Russia. Interest in Afghan raisins and grapes in other second tier markets such as Dubai, Sri Lanka and Israel were also identified early in the RAMP project through test marketing. In addition, the demand for dried fruit has been increasing in Europe for the past few decades; domestic production there has dwindled because it is not cost competitive with imports from countries with lower labor costs. This represents a substantial new market for Afghanistan if it can meet the high phytosanitary and quality standards set by the European Union.

QUANTITY OF PRODUCT PURCHASED BY VARIOUS BUYERS THROUGH DIFFERENT CHANNELS

By value and volume, grapes and raisins are the biggest perennial fruit crop in Afghanistan. A World Bank study in 1975 estimated there were 80,000 hectares of grapes in production in RAMP's target regions (representing approximately 90 percent of national grape production). Exports were estimated at $48 million (mainly raisins) and domestic consumption was estimated at $33 million. About 53 percent of national production was being exported. After 1976, however, during the decades of war and drought, exports declined sharply. In 2002, when Chemonics began work in Afghanistan, there was little production or export information available. One study by the FAO in 1997 estimated that active vineyards throughout the country had declined to only 46,000 hectares.

Farmers and project staff said that in the last five years, limited shipments of table grapes have been going to Pakistan. This is typically on an *ad hoc* basis, when the price of grapes in Pakistan rises high enough to entice a trader or group of farmers to send a truckload to the border, despite the high risk of delays at customs and informal "taxes" levied by various parties along the route. An exact figure was not available, but it is not thought to be a significant volume. The absence of a cold chain has prevented grape exports to more distant lands. Raisins are being exported in greater quantities to Pakistan and India. The Ministry of Commerce's Institute of Raisins and other Dried Fruits and Nuts reported testing and certifying raisin exports in 2006 of about 36,000 metric tons. They are expecting that to rise to 50,000 MT this year. There are probably many more shipments crossing into Pakistan that they have not certified and counted.

Trellised Grapes Ready for Harvest

CHALLENGES TO COMPETITIVENESS

International trends toward higher phytosanitary and quality standards present a huge challenge to Afghan exports. For Afghan farmers to become competitive in international markets will also require more efficient production (higher yields resulting from improved cultivation practices), replanting diseased vineyards with preferred grape varieties, improved post-harvest practices, access to cold storage and better packaging to reduce the current levels of 20–30 percent loss on the way to market, and adoption of improved drying techniques for higher-quality raisins.

BUSINESS ENABLING ENVIRONMENT

This subsection discusses general aspects of the enabling environment that affect most businesses, including the grape/raisin and poultry subsectors, and then those that directly impact the grape/raisin chain. Aspects specific to the poultry chain are addressed in Section III.C.

GENERAL ASPECTS OF THE BUSINESS ENABLING ENVIRONMENT

Human resources. The literacy rate in Afghanistan is about 30 percent for men and about 17 percent for women. There is a yawning lack of basic education and simple business skills, not to mention higher-level technical knowledge and skills. Many schools were closed during the years of conflict, and girls were not allowed to attend at all under Taliban rule. The hiatus in education services, combined with the exodus of the educated middle classes while conditions worsened steadily, has left a void of human capacity in Afghanistan that will not be filled for many years to come. It is without question the most daunting hindrance to every aspect of Afghan social, economic and political development.

Security. Security is still a problem throughout the country, and getting worse in the east and southeast. Insurgents attack the population, government and international peacekeeping forces. The police are widely seen as incompetent and corrupt, allowing criminal behavior to increase and perpetrating a fair amount of it themselves. Police, like bandits, are said to stop trucks hauling produce to market and order them to pay "taxes" and bribes before they can continue.

Another security-related hindrance is the thousands of mines dropped by both the Soviets and the Americans over the past several decades, some of which are on arable land, which is in short supply in Afghanistan. The presence of

mines greatly impedes the rehabilitation of the agricultural sector; affected farmland cannot be irrigated or cultivated until it is de-mined.

Infrastructure. The lack of water generally and particularly during the past several years of drought is the most serious physical constraint on all Afghan agriculture. The Afghans have many and varied complex irrigation schemes throughout the country that have been adapted to the various geographic and climatic zones, but irrigation infrastructure was damaged and fell into disrepair during the long years of war. Rehabilitating the old structures and augmenting them with new to expand the availability of arable land by means of irrigation is a major focus of development assistance funds and of the Ministry of Agriculture.

The number and condition of farm-to-market roads (and roads in general) is a severe constraint on the transport and marketing of all agricultural products, including grapes and raisins, so much so that it was estimated that only 30 percent of farm output makes it to market. Electricity is needed for many business processes—particularly in the case of cold storage for horticulture—but is largely unavailable through the country. In Kabul generators are widely used, but the cost of fuel to run generators is prohibitively high for farmers and most traders. Telecommunication infrastructure is needed to better integrate markets, facilitate business and provide farmers and traders with current market prices and conditions.

Exchange rate. Traders complained that the government's monetary policy is to support the afghani at artificially high rates against the dollar by regularly buying afghanis with dollars to keep them in short supply. Since the economy is highly dependent on imports, this policy makes consumer and capital goods more affordable for Afghans. But it also makes exports from Afghanistan more expensive than they would otherwise be, reducing the cost competitiveness of Afghan horticultural products among others in international markets. This policy weakens one very considerable comparative advantage Afghanistan has: its temperate climate zones, which enable Afghans to grow many fruits and vegetables that cannot be grown in neighboring countries with tropical climates.

Tax policy. Income taxes on businesses are applied and collected inconsistently—some say capriciously. Stories are told of businesses being visited by tax officials who order them to pay an arbitrary sum, which usually turns out to be "negotiable." This may be due to poor administration, corruption, or both. Government interest in eliminating this kind of occurrence seems to be lacking.

Business culture. "Transparent" is not an apt description of the general business culture of Afghanistan. Corruption and collusion between government and business is believed to be commonplace. Business is conducted based on personal, familial, ethnic and historical relationships, and businesses must negotiate a maze of bribes, taxes and murky government requirements that raise the risks and costs of doing business. Those businesses with the right connections are able to sidestep many of these costs and risks. They are also more successful in getting access to land and capital, two critical constraints in the business enabling environment of Afghanistan. However, for small businesses and potential new investors or entrepreneurs without political influence, there are significant and sometimes insurmountable barriers to entry.

Some experts assert that the Afghan market and economy are actually highly regulated by *informal* social norms that restrict competition and participation and ultimately result in a consolidation of market benefits in the hands of the already wealthy and powerful.[10] According to these experts, the major traders in today's market are the same ones who emerged in the 1970s and operated under the *mujahideen* and the Taliban, often from Pakistan. They are a relatively small group of businessmen who dominate the sectors in which they are involved, having access to capital and political influence that small and medium-sized businesses do not. Most deal in many commodities within their region of operation, e.g. carpets, dried fruits and nuts, televisions and fertilizers—depending on price and demand—allowing an exporter of carpets to import televisions to get his money back into the country.

[10] Pain, Adam, Sarah Lister.

It has been observed by these same experts that many of the traders operating today originally obtained their capital base through illicit activities, even though they may now be dealing mainly in licit commodities. Whatever they are involved with now, they must maintain good relationships with those involved in the illicit economy because they are often the ones who control the supply routes and transport systems.

Contract enforcement and property rights. The judicial branch is quite weak and regarded as corrupt. Property rights are a major constraint on business expansion. Land ownership is required as collateral for bank loans, and many people do not have title to the land they have occupied for generations. Other land has been appropriated by the military, police or government. Popular perception is that property rights are for sale by the government to insiders with influence. Thus acquiring land or the rights to use land for business purposes is regarded as a bureaucratic ordeal fraught with many risks, including that the government might grant title to land but then re-appropriate it after investments have been made. Whether this is actually a prevalent practice or not, the perception that it is seems to be a strong hindrance to new investments.

Financial and economic institutions. The number of private banks in Afghanistan is multiplying, joining the ranks of a few national banks, and there are donor-funded credit programs. The National Bank of Afghanistan has had loan programs for farmers and for small businesses for less than two years. For farmers, two pieces of land with title are required as collateral: one that would be forfeited in case of default, and one that would remain with the farmer to keep him from total ruin. Additional requirements are two references from neighbors attesting to the farmer's residency and standing in the community and a business valuation of his operation, past and future. The minimum loan amount is 10,000 afghani ($200), and the maximum amount is half the appraised value of the land put up for collateral. Payment terms are 12 percent for one year, to be made in one balloon payment, plus 0.5 percent fee to the government and 1 percent commission to the bank.

A private bank that was interviewed was not lending to farmers, but rather to exporters and importers and construction firms. Again, titled land is the acceptable form of collateral, plus a cash deposit equal to 50 percent of the loan value. A business plan must also be presented and approved by the credit committee. The minimum loan amount was $20,000 and the maximum $2 million; duration is from six months to one year, with monthly payments required at 12 percent interest for US dollar loans and 10 percent for loans denominated in afghani. The loan agreements are then negotiated on a case-by-case basis. Rather to the consternation of the research team, the bank officer stated proudly that the loan contracts are made verbally, not on paper. It is unclear what to infer from this practice, except that the formal banking sector is developing in its own particularly Afghan way.

ASPECTS OF THE BUSINESS ENABLING ENVIRONMENT SPECIFIC TO THE GRAPE/RAISIN VALUE CHAIN

Policies supporting specific industries. Raisin exporters were apparently granted exemption from an export tax of 2.5 percent in 2005, but there is confusion and inconsistency in the application of this exemption. There is no known exemption for grapes.

Regulatory environment. Markets are largely unregulated in Afghanistan, and the government takes a generally hands-off approach to the grape/raisin sector. There are no government controls on the raisin or grape markets, no published grades and standards, no hygiene rules or public health inspections, no price supports, and no technical assistance from the government, any of which might actually improve the competitiveness of these products. There are a number of controls put on raisin exports, however, which appear to be more about rent-seeking by government officials than about quality control. For example, raisin exporters must obtain various certificates from different government agencies for fees purporting to certify quality and cleanliness for export. Physical inspections and laboratory tests that would be required to prove the quality and cleanliness of product to be shipped are by all accounts rare or nonexistent. Yet most of the traders appear to obtain the certificates and pay the fees—taking the line of least resistance, perhaps.

Legal and regulatory enforcement capacity. There is a lack of adequate testing and certification services to meet the quality standards required for certain external markets. The Ministry of Commerce houses the Laboratory of Quality Control of Dry Fruits for the Promotion of Exports. Prior to 2004, it provided only physical tests to determine sugar content of dried fruit. These tests were not adequate to meet the standards for exports to many countries. For example, the United States and the European Union require certification of acceptable levels of aflotoxins (poisonous substances originating in soil that can grow in improperly stored foods). Regional markets are accepting Afghan raisins based on the certificates that traders routinely obtain from the government. Whether the shipments are actually tested, and if so, whether they are tested for anything more than sugar content is doubted by those interviewed who are knowledgeable about the subsector.

ETHNICITY IN THE TWO MAJOR GRAPE-GROWING REGIONS

Most of the inhabitants of the Shomali Plain, just outside Kabul, are Tajik and speak Dari. They are tied by ethnicity to northern Afghanistan.

The population in Kandahar in the southeast on the border with Pakistan is Pashtun and speaks Pashto. This is the heart of Taliban territory from where the insurgency is now emanating. Pashtuns have close ethnic and political ties with Pakistan.

Because the ethnic groups are so localized, and the grape-growing areas so far apart, ethnicity is consistent within the value chain in each region and therefore not an issue. The Shomali Plain grapes and raisins are either sold around Kabul or sent over the border to Pakistan via Jalalabad in the north. Grapes and raisins from Kandahar are marketed regionally or sent over the border to Pakistan via Kandahar in the south. They are two separate chains, for all intents and purposes.

The same lack of facilities and government oversight for exports exists for testing and quality control of imported fertilizers, pesticides and other agricultural inputs. These services are sorely needed to protect farmers from fraud and harmful products.

Trade policy. Pakistan is Afghanistan's main trading partner, but trade policies have not been reciprocal. Pakistani imports into Afghanistan face minimal controls and delays, and roll across the border in Pakistani trucks; but Afghans trying to truck goods into Pakistan must unload at the border, and pay porters to carry the goods across and reload onto Pakistani trucks. Up until November 2007, if these goods were destined for India on the other side of Pakistan, they had to be unloaded again at the Indian border and loaded onto Indian trucks. This policy sharply increased the spoilage of perishable produce such as grapes such that it was not profitable to export from Afghanistan to India.

GRAPE/RAISIN VALUE CHAIN PARTICIPANTS

Producers. Farmers in the regions surrounding the Shomali Plain, Kandahar and Helmand grow 90 percent of the grapes in Afghanistan. The most common varieties of grapes grown are red Aftabi, green Kishmish and black Agjosh grapes. About 85 percent of the harvest ultimately ends up dried and sold as raisins because the soft skins of these grapes make them especially difficult to transport fresh.

The size of farms is typically quite small, usually between one and five hectares, and they are surrounded by high mud walls that make access for machinery, manpower and irrigation more difficult. The small farm size also precludes vertical integration of processing into the farm operation. It also creates the need for a series of assemblers and traders to amass sufficient quantities of product for processing and wholesaling. Cultivating grapes is time intensive and demands considerable expertise to achieve optimal yields. Without proper management yields can fall as much as 70 percent, and without adequate inputs can decline by 90-100 percent. With the events of the past 30 years and the displacement of so many farmers, the current generation of farmers does not have modern skills, tools or techniques for vine cultivation. In 2004, the RAMP team found that many of the vineyards in the target areas of the Shomali Plain and Kandahar had been completely destroyed or severely damaged. Those producing were only yielding about 9,065 kg per hectare, compared to 40-50,000 kg per hectare in California's grape- and raisin-growing region. The low yields were due to several factors: poor pruning and training techniques, inadequate fertilizer utilization, poor irrigation systems, little pest control and lack of financing to purchase these things. Almost all of the vines examined were diseased.

Trellising is not traditionally practiced in Afghanistan. Instead, vines are allowed to lay and grow along the ground. Trellising reduces disease, allows for easier cultivation and greatly increases yield—as much as tripling it. In the Shomali Plain, farmers use dirt mounds to help support the vines and protect them in winter, but this increases incidence of disease and reduces the quality of the grapes. Pruning is not practiced effectively, if at all. Proper pruning is essential to plant health and significantly increases fruit production. Farmers have been slow to replace plants that have died, just leaving a bare spot in the field, perhaps signaling a reluctance to invest in the future just yet.

Farmer's Children in Family Vineyard

Other sub-optimal cultivation practices include certain irrigation systems and improper application of fertilizer and pest control. Shomali farmers were flooding their fields to irrigate. This is the most inefficient of all methods and can result in higher susceptibility to disease and weed growth. Additionally, the use of fertilizer is somewhat haphazard as it is rarely based on soil tests and scientific knowledge of required nutrients for maximum yield. Neither are pesticides and herbicides used effectively, or even safely. The proper equipment is lacking for effective application of chemicals; sometimes disease is mistaken for insect damage.

About 39 percent of farmers sell their produce at the farm gate, another 30 percent of farmers sell in their district market, 25 percent sell at the provincial market level, and 6 percent export. The 39 percent selling to traders at the farm gate have little or no access to market price information. Traders and farmers negotiate various payment schemes. Typically, a trader will come by the farm as the vines begin to fruit and offer the farmer a contract to buy at harvest time. The farmer often will get a down payment at this time, but usually will not receive full payment until after the trader has sold the grapes, and this payment will be based on the price the trader sells for, discounted for a percentage of product lost to spoilage and handling. All the risk is borne by the farmers. As might be expected, farmers complain that the traders cheat them by claiming to have received a lower price than they actually did, and/or higher spoilage. Whether this is a widespread practice or not, the fact remains that the more remote farmers have little choice but to sell to traders under the terms they dictate. This is less true of the many grape growers in the Shomali Plain who are close to the main roads and markets with access to

more current price information and more traders. We were told that farmers do not necessarily sell to the same trader every year, which suggests competition does exist among traders—but one must assume that in the remote areas with bad or nonexistent roads fewer traders venture in.

Input suppliers. Most agricultural inputs—various fertilizers, pesticides, seeds, etc—are imported from Pakistan by about half a dozen regional wholesalers who distribute to small retailers scattered across the countryside. Supplies are irregular and inconsistent, and quality control is inadequate. We heard repeated allegations of falsely labeled products unloaded on unwitting farmers. In general, farmers cannot count on access to the products they need, nor can they count on the quality of the products that are available. For grape growers in particular, access to new cultivars and rootstock material had become all but nonexistent by the end of Taliban rule.

Traders. Traders or brokers provide a critical service in amassing sufficient quantities of product from many small farmers for purchase by larger traders, wholesalers and processors. They can also play a role in quality control. They contract for farmers' harvest in advance, and in most cases bring in the labor and packaging to conduct the harvest and transport it to their buyers. Typically, the trader does not pay the farmer until after he has sold the product, minimizing his risk. As already mentioned, remote farmers have little leverage when negotiating price with traders, as they do not have access to market price information nor do they cooperate for collective bargaining power. There are usually substantial post-harvest losses due to extreme temperatures, contamination, bruising and spoilage.

Wholesalers. Wholesalers of grapes and raisins operate from the larger market towns and typically buy from many traders who in turn may have bought their product at the farm gate, or perhaps several steps removed if the farm is remote from a larger town.

Raisin processors. Because farms are so small, processors receive raisins aggregated by traders from many small producers, resulting in a wide mix of type and quality of product. Raisins are sorted by color, but many grape varieties of similar color will be combined by the traders for processing and marketing. A lot of dirt and foreign material ends up mixed in with the raisins, which makes cleaning very difficult for workers and machines. To make matters worse, the processing equipment is old, filthy and improperly maintained. The sanitation in these plants is so dismal that visitors leave them resolved never to eat processed raisins from Afghanistan. Plants do not employ even basic low-cost methods for minimizing contamination of the finished product. According to the Ministry of Commerce's Institute of Raisins and other Dried Fruit and Nuts, there are currently 6 raisin processors in Kabul compared to 22 before the war. Before the war there were 36 processors countrywide; there are now 14.

Exporters. Raisin exporter/traders are often individual businessmen, and sometimes they own raisin processing plants. There are some exporter associations, but exporting seems to be concentrated in the hands of a relative few. Grape exports by established traders dealing in dried fruits (raisins, apricots), nuts and other horticultural products are just beginning to happen. To date, grape exporters have been a few of the more sophisticated and entrepreneurial farmers who have combined their harvests to truck to Pakistan for sale when prices there for fresh grapes climbed high enough, as they were in October of 2007.

Retailers. Raisins are widely available throughout the year. Fresh grapes are obviously only seasonally available. Aside from the retailers in the open air markets and small shops, farmers and traders may themselves engage in some direct selling to end consumers. For example, farmers may take a small cartload of either grapes or raisins to the main road to sell to passersby. Likewise traders may retail some of their product in the district market directly to consumers.

SUPPORTING MARKETS: SECTOR-SPECIFIC AND CROSS-CUTTING SUPPORTING MARKETS

Financial services. There was no formal financial service sector by the end of Taliban rule. All credit was informally sourced from family or moneylenders, or from within the value chain as in the case of farmers receiving partial advance payment on their harvest. See Section III.C for a discussion of the *hawala* system. In addition to the

expanding but still nascent formal banking sector described earlier, the donor community has made a range of credit programs available through various NGOs and MFIs that are intended to cater to all sizes and types of businesses. The complaint that credit is not available to small farmers and businesses nonetheless persists. One knowledgeable expatriate who has been working for the past five years with farmers and traders in Afghanistan said it is not so much that they cannot get the loans as that they do not like the terms.

Demonstration Vineyard (Leftmost row trellised, all others lying on the ground)

There are also informal or embedded sources of credit between grape farmers and traders. Early in the grape growing season a trader may advance 30-50 percent of the expected value of a harvest to a farmer from whom he has contracted to buy at the end of the season.

Storage/refrigeration, packaging and transport. Virtually no cold storage existed by the fall of the Taliban. All products in Afghanistan are moved by truck, as there is no sea access, no rail and minimal air transportation. Poor roads make truck transport slow and the contents subject to extensive damage, especially since the trucks do not have refrigeration. There are no packaging standards or sources of good packaging, so jute bags, crates and baskets are used at random. There are few proper storage and processing facilities. There is virtually no refrigeration, and temperatures remain quite high during and after harvest. Everything is moved by hand, and product usually changes hands multiple times before reaching the end consumer. Sanitation is poor. Roads and transport options are very poor, and sub-optimal retail conditions are the norm, usually consisting of either a cart or market stall unprotected from the sun and ubiquitous dust.

Agricultural inputs. Fertilizer, pesticides, new plant stock and packaging for shipping are not readily accessible to farmers located any distance from major towns. After years of war, drought and neglect, the health of many perennial crops including grape vines and orchard trees are at risk. They are undernourished and diseased. Yield is low and quality of the fruit is poor. Replacement stock is desperately needed but not available.

Extension information and services. Until the Soviets took over and the resistance efforts cut off government services beyond Kabul, soil testing and information about proper plant nutrition, fertilization, disease and insect control had been provided through provincial government agricultural extension networks. The Ministry of Agriculture, Irrigation and Livestock is gradually re-establishing extension services with assistance from donors.

INTER-FIRM LINKAGES

HORIZONTAL

Farmer associations are all but nonexistent among the grape growers of the Shomali Plain, although some trader associations exist. Currently there appear to be between 7 and 10 trader-exporter associations nationwide dealing in the fresh and dried fruit, vegetable and nut subsectors. Most of these were recently organized by donors and are being assisted to increase the exportability of their product lines.

VERTICAL, FARMER TO TRADERS

About 39 percent of farmers sell their produce at the farm gate, contracting their crop to traders before harvest who estimate the yield and then oversee the harvest and packaging. A large percentage of farmers rely on these traders because of the lack of marketing systems and transportation in rural areas. As mentioned above, the traders provide harvesting labor, packaging, transport to market and sometimes credit. If side-selling occurs, it did not seem to be a major problem. The contracting mechanism traders use potentially gives them leverage with farmers to control quality and/or pass along information about market preferences, but to date this is not a prevalent practice.

VERTICAL, PROCESSOR TO TRADERS

One large raisin processor/exporter in Kabul established standards for raisins he would buy from traders, who in turn transmitted these end-market requirements down the chain to farmers. This is a trend that RAMP and now ASAP is encouraging. But in general the high number of intermediary traders (6-10 would not be unusual) between farm gate and wholesaler weakens this potential communication channel.

VERTICAL, EXPORTERS TO TRADERS

These links have yet to be cemented because the export markets are just being established for fresh grapes and are still tenuous for raisins. Traders generally are not interested in shouldering the added risk of exporting because they are ignorant of or do not believe in the potentially greater profits to be earned in export markets. They are content with their lot as is. They are able to sell most of the fresh grape harvest domestically for a reasonable profit, and raisins are a by-product that provides extra revenue. Until a critical mass of value chain participants at the top of the chain with the potential to export decide to pursue external markets in a serious way, the need for strong vertical linkages to communicate end-market demands back down the chain to the producer is simply not felt.

The lack of both vertical and horizontal linkages means little or no end-market information is getting back to producers, and learning is not occurring. Farmers do not cooperate to buy cheaper or sell higher. Likewise, there seem to be few well-established relationships between value chain participants and providers of finance and other services.

B. GRAPE/RAISIN VALUE CHAIN FINDINGS

OPPORTUNITIES FOR AND CONSTRAINTS TO UPGRADING

Opportunities to increase profits were identified for both grapes and raisins, mainly in the regional markets. For example, in India, green shade-dried raisins are in high demand and fetch a high price. This is a niche market Afghanistan could potentially sell to with some basic changes in drying methods. The quality and cleanliness of sun-dried raisins, however, requires more substantial improvements to technology and methods to compete beyond Pakistan. It is clear that Afghanistan cannot compete beyond Pakistan in fresh grapes either, unless better handling, packing and refrigeration are instituted—in which case, there is good potential beyond Pakistan to India, the Gulf States and eventually China. Vine yields would have to increase greatly as well in order for grape exports to be cost competitive in these markets and profitable for producers.

The initial value chain analysis carried out under RAMP determined that in the long term, the competitiveness of Afghan grapes and raisins could be substantially enhanced by replacing the majority of old vines with high-quality vines (i.e., improved cultivars with disease-tolerant rootstocks), implementing new growing techniques such as trellising and aggressive pruning, and using optimal fertilizer and pest-control inputs. All of these improvements are needed to bring yields up to competitive levels. Short of replacing the old vines, which was recognized as an intermediate- to long-term proposition, much is possible to rehabilitate existing vineyards. Providing critical inputs and improving cultivating techniques could be undertaken as short- and intermediate-term interventions that would result in rapid and significant increases in yield. Better packaging, transport, and storage, processing and marketing

were other areas critical to achieving competitiveness in the grape/raisin subsector. The table below summarizes the constraints and opportunities identified in the foregoing value chain analysis.

Table 1. Value Chain Participants with Incentives to Address Identified Constraints

Value Chain Participant with Constraint	Value Chain Participant with Incentive to Address Constraint
Producers: lack of healthy plant stock and improved cultivars to rehabilitate damaged and diseased vineyards	Input suppliers
Producers: lack of knowledge of improved cultivation techniques that would greatly increase the yield of their existing vines	Input suppliers: educate farmers at point of sale about fertilizer, pest control, trellises, etc. Newly trained and deployed government extension agents
Traders: lack of facilities for proper assembly, cleaning, packing and storage of grapes and raisins to lengthen shelf life and increase the timeframe for marketing	Traders, wholesalers
Traders, wholesalers, exporters: lack of cold chain facilities	Traders, wholesalers, processors
Traders, wholesalers: lack of proper packaging for shipping and for export	Supporting market service providers
Producers: lack of trellises to buy and install in vineyards	Input suppliers
Processors: lack of technology and knowledge to process grapes (into juice, jams, etc.) and raisins for domestic consumption, as well as export	Private (foreign or Afghan) investors with assured domestic or foreign markets
Input suppliers, producers, traders, processors, exporters: lack of working and investment capital	Nascent financial sector, possible incentive for intra-chain credit provision, e.g., traders to growers for agricultural inputs
Traders, exporters: lack of information about and linkages to export markets	Traders, exporters

ANALYSIS OF INCENTIVES

Virtually all of the participants along the chain have incentives to upgrade to meet the demand in foreign and local markets for fresh grapes and higher-quality raisins—farmers, traders, input suppliers and supporting market service providers. But the perceived risk involved in trying to penetrate new markets is a strong disincentive to try new methods or make new investments. For example, most grape farmers have small plots and cannot afford any reduction in their crop, so they are afraid to jeopardize the status quo with new methods and technologies.

The political instability caused by the conflict and the unpredictable government discourages businesses from making capital investments, and as a result assets are lying idle. For example, the raisin processing equipment in the country is old and in some cases not functioning, but the owners are content to leave it as is and use their capital in less risky ways such as importing consumer goods from Pakistan.

RELATIONSHIP BETWEEN VALUE CHAIN AND CONFLICT DYNAMICS

Many of the vineyards in Kandahar and the Shomali Plains were purposefully destroyed by the Soviets to punish noncompliant populations. Most of the population in Shomali is Tajik and supported the Northern Alliance. They resisted the Soviet occupation and suffered heavy reprisals as a result. Next they were pounded in the years of crossfire between the various Afghan factions competing for control of Kabul after the Soviets left. Then the Taliban, who are Pashtun, attacked the Shomali farmers (Tajik and Dari-speaking) who were seen to be resisting the ultra-conservative Taliban rule. Fields and homes were burned, water systems were destroyed and many families fled. Also during the Soviet occupation, much of the productive agricultural area was mined, including the Shomali Plains. Many of these areas remain unusable until they can be cleared, and this is predicted to take decades.

Today, the impact on the grape/raisin value chain participants from ethnic-religious conflict does not seem significant. In general the Taliban insurgents do not seem intent on impeding the truckloads of grapes and raisins traveling to

market, unless they see a direct link to the government. For example, they have attacked seed distribution operations and World Food Program trucks to keep the government from earning favor. Transport of goods is, however, subject to interference and extortion from strongmen along the trade routes, as mentioned.

The conflict has affected many aspects of economic activity in the country, many of which do affect the grape/raisin value chain. The conflict hinders proper governance at all levels of commercial activity, engendering bribes and unofficial taxes that increase the cost of doing business. In addition, the continuing conflict impedes the installation and repair of basic infrastructure. If there were no conflict, for example, more electrification would have taken place, making cold storage more affordable and available. The conflict has also forced the government to embrace and compromise with so many competing interests in order to survive that it cannot speak with one voice on agricultural, commercial or trade policy.

C. POULTRY VALUE CHAIN

A value chain assessment of the poultry subsector conducted by RAMP in 2004 found that 99 percent of Afghanistan's chickens were raised using a "backyard scavenger system," operations almost exclusively owned by women. High mortality due to disease and low egg production due to poor feeding rendered the productivity of these chickens insufficient to meet domestic demand for both eggs and meat. Thus eggs and live birds were being imported from Pakistan and Iran, and frozen chicken meat from Brazil and the United States to supply about 90 percent of what was sold in the urban markets. Village producers sold what surplus eggs and live birds they had locally, or to traders who transported them to urban markets. There were also some peri-urban producers using a more sophisticated, semi-commercial approach to rearing chickens. They marketed from their home or through local market channels.

At the next level of the value chain, the assessment found urban wholesalers of imported table eggs and of frozen chicken meat for distribution in the urban markets. Urban retailers of table eggs and frozen meat sold in small stores throughout urban areas. Urban semi-wholesalers of imported live birds from Pakistan and Iran distributed them in large central urban markets. Urban live bird retailers were small vendors of imported or village live birds obtained from semi-wholesalers or village live bird traders. Finally, rural and urban veterinary services were being revived throughout the country since the Taliban were deposed. Input suppliers included a few intermittently operated small hatcheries—intermittent due to the lack of a reliable supply of fertile eggs. There was no industrial feed mill, so feed was imported from Pakistan and Iran. Figure 2 on the next page presents a map of the poultry value chain in Afghanistan.

END MARKETS FOR POULTRY VALUE CHAIN

LOCAL, DOMESTIC, REGIONAL AND GLOBAL MARKETS

Currently, local poultry producers only serve the domestic market in Afghanistan, and as production levels are far from adequate to satisfy the local demand for either eggs or meat, substantial imports of both are occurring.

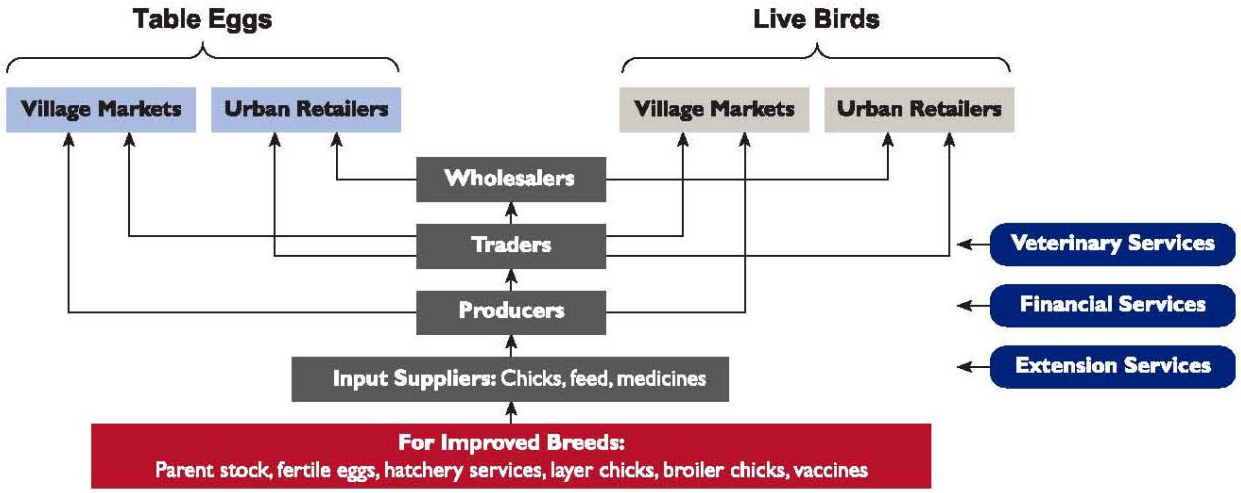
END-MARKET REQUIREMENTS

Afghans prefer the fresh brown eggs produced locally to the white eggs imported from Pakistan, and are willing to pay a 20 percent premium for them. Frozen chicken meat is a relatively new commodity in Afghanistan. The prices for frozen meat are actually lower than local fresh chicken meat, and perhaps for this reason frozen chicken is regarded as "the poor man's" meat, not as desirable as fresh chicken. Thus the primary market is for fresh meat, and it is usually purchased in the form of a live bird. This allows the buyer to be certain that the slaughtering technique was in accordance with *halal* procedures.

THE COMPETITORS

The egg and meat markets in Afghanistan are dominated by imports from Pakistan in the east and Iran in the west. Imports from these countries total about one-third of the eggs consumed in Afghanistan and virtually all of the live birds purchased in urban areas. Frozen meat is imported from the U.S. and Brazil.

Figure 2 Poultry Value Chain Map*



*This map shows local producers in the value chain and the primary markets for them: table eggs and birds.

POTENTIAL TO COMPETE

As stated above, local eggs are preferred by consumers to the imports from Pakistan, and with at least a 20 percent premium it is profitable to produce for the local market. Thus, local eggs compete successfully with imported eggs. The importing of frozen chicken meat from the U.S. and Brazil, through brokers in both Dubai and Turkey, is very cost efficient and results in prices that are quite competitive for Afghan consumers. But because Afghans prefer to buy their chicken live, live birds compete well with the cheaper frozen imports. Local live birds raised under the traditional backyard system are not cost competitive with those imported from Pakistan and Iran. In 2005 the retail price of a Pakistani bird was 93 afghanis and the Afghan bird was more than twice the price at 218 afghanis.[11]

UNTAPPED MARKETS OR DEMAND

Figures from 2004 show that almost one-third of the eggs consumed in Afghanistan were supplied by imports from Pakistan and Iran. Almost no frozen meat is processed locally, and the live bird market is supplied mostly from Pakistan and domestic producers because it is quite expensive to transport live birds. It is unclear whether there is unmet demand for fresh chicken meat, but it is clear there is unmet demand for local eggs.

PRODUCT PURCHASES BY VARIOUS BUYERS THROUGH DIFFERENT CHANNELS

Poultry products are imported to Afghanistan through four major cities: Kabul, Kandahar, Herat and Mazar-e-Sharif. In 2004 it was estimated that the total number of commercialized eggs in Afghanistan was 290 million. About 200 million eggs were imported from Pakistan and from Iran, and importers estimated this was increasing by about 10 percent per year.[12]

[11] Report on SME Sectors. March 2005. Altai Consulting
[12] RAMP Afghanistan Poultry Sub-Sector Assessment, April 2004.

Total meat imports were estimated at about 41,000 MT of frozen meat and 10,000 MT of live chicken.[13] The importation of frozen chicken started in 2002 and has also been steadily increasing from the United States and Brazil. Live chickens are imported mostly from Pakistan, and some from Iran.

CURRENT AND FUTURE CHALLENGES TO COMPETITIVENESS

There is good market potential for eggs, live chicken, chicken cuts and butchered chickens produced in Afghanistan for the local market. But careful production planning, execution and marketing are essential for the success of operations. Several semi-commercial and commercial ventures have failed in the past few years due to a lack of technical skills in poultry production; the cost and difficulty of securing timely inputs such as chicks, proper feed mixes and fuel; and inattention to marketing.

BUSINESS ENABLING ENVIRONMENT

Many of the constraints described above in the business enabling environment for the grape/raisin value chain hold true for the poultry chain as well, e.g., lack of electricity and good roads, limited access to land for business expansion and lack of financial services. One constraint specific to poultry and livestock production is the lack of regulatory controls on imports of specialized feed, vaccines and other animal health medicines. These are imported (mostly from Pakistan) with no quality checks or content verification, resulting in expired vaccines and fraudulently labeled feed products sold to unsuspecting farmers.

POULTRY VALUE CHAIN PARTICIPANTS

Poultry Producers. There are three types of poultry production operations in Afghanistan.

1. In the backyard scavenger system a flock of usually fewer than 10 birds is left to scavenge for whatever food they can find in the compound. The average egg production is about 60 per bird per year. Although the domestic breeds prevalent in this situation are more disease resistant than improved breeds, they still have a high mortality rate of more than 50 percent. Ninety-nine percent of the poultry in Afghanistan is raised this way. Virtually every rural family has a few chickens—usually fewer than a dozen—for private egg and meat consumption.

2. In the semi-scavenger system dual purpose birds (bred for meat and egg production) are given about half of their food, as well as medications and some shelter. Flocks are usually between 10 and 500 birds of mixed breeds with average egg production of 125-150 eggs per hen per year. RAMP introduced this system to 28,000 village women in 7 provinces.

3. The semi-commercial system is more intensive, with 500 to 5,000 birds in total confinement and provided with all their feed. This system is usually adopted by someone transitioning from the semi-scavenger system who has developed his or her management skills and a secure market, and has access to working capital for feed costs. About 10 of this type began operating in 2004 with support from the FAO.

Domestic poultry producers are mostly rural women practicing the scavenger and semi-scavenger approach, although there is semi-commercial production taking place in the peri-urban and urban areas, all of which is male-owned. A fourth system not currently in existence in Afghanistan is the commercial system, which is a large-scale, capital-intensive operation dependent on mechanized equipment. These operations will often be vertically integrated to include production, processing, hatchery and feed mill functions.

[13] Altai Consulting Estimate. Dec-Feb. 2005.

Assemblers or traders from the village purchase surplus eggs and the occasional chicken directly from households and the rural village markets. They accumulate sufficient product to transport to urban centers, where they usually sell the eggs in bulk to retailers and sometimes directly to consumers in the central market. Live birds are most often sold directly to consumers, but sometimes to retailers in the live poultry markets. Some of these assemblers then purchase household and products requested by the women such as cosmetics to trade with village producers for the next load of eggs and chickens.

Semi-Scavenger System

Importer/wholesalers. According to the assessment in 2004, there are between three and five active table egg importers that specialize in each of the major provincial centers. In addition, there were between four and six egg importers who also imported several other wholesale food items. Twenty frozen chicken importers are located in Herat, where most of the shipments come in from Iran. Twelve are located in Kabul, importing about 22,000 MT of frozen meat, most of it coming through Herat. The importers store containers of the frozen meat near the central market where retailers come to pick up their orders. Live chicken importers in each major urban area source their birds at the nearest border crossing. There are about four importers in Kabul bringing about 1,100 MT of live chicken from Peshawar and Punjab in Pakistan.[14]

Retailers. Retailers start with the women producers who often sell eggs and live chickens directly to their neighbors or in the nearest periodic market. They might send a male family member to a nearby peri-urban market to sell to consumers if transport costs are not prohibitive. In fact, the retail distribution system for eggs is such that they are available nearly anywhere, anytime. Shops sell by the flat (30 eggs), 4-10 in a bag, or singly. Street vendors also sell boiled eggs for a nutritious snack.

Retailing of imported eggs is well organized throughout the urban and peri-urban areas. The importer/wholesalers have well-developed importing channels as well as distribution channels with retail shops and street vendors. Most retailers have an exclusive relationship with one egg importer/wholesaler.

As mentioned above, urban retailers sell mostly frozen meat sourced directly from the importers. Live birds are harder to find. There is no major live poultry market in Kabul. Only about 20 retailers sell live chickens in the main bazaar and street, with few to be found at the other smaller markets around town. These live chickens are imported from Peshawar and Punjab in Pakistan by four main importers.

Input Suppliers. Inputs required for improved poultry production include a reliable source of affordable feed, vaccines and medicines, and replacement chicks of improved breeds. All of these are currently imported. A few hatcheries have operated intermittently in the warm summer months, but heating costs throughout the colder months make them uncompetitive with imported chicks from Pakistan and Iran. Farmers cannot afford the heating costs to keep chicks alive in winter, either, so they buy two-month old chicks in winter, which they can get more cheaply from Pakistan. Until a stronger, consistent business-to-business demand is generated by semi-commercial or commercial growers, the hatchery business will not be sustainable. Likewise, there is no commercial feed mill operating in the country today due to insufficient sustained demand; 99 percent of Afghan chickens are not given purchased feed. A few mills have been started and supported by donors around the country in the past several years in connection with

[14] RAMP data, 2004. Altai Consulting, 2005.

their poultry production projects, but none are operating on a continuous and commercial basis. Feed is imported, again mainly from Pakistan.

SECTOR-SPECIFIC AND CROSS-CUTTING SUPPORTING MARKETS

Credit for working capital and fixed assets is not yet readily accessible for entrepreneurs seeking to expand their operations. However, Afghan egg importers often receive credit from their suppliers in Pakistan and in turn offer credit to their regular retail shop-owner customers. Importers and wholesalers in Kabul use the unique *hawala* system to settle their accounts. *Hawala* is an informal, efficient, low-cost (and unregulated) financial system through which a Kabul importer can get a transfer of funds from an agent in the Kabul money market. By way of a centralized record-keeping system, the funds are transferred to an agent in Pakistan and then given to the table egg farmer at a remote location. The system is remarkable in its dependence on kinship, ethnic ties and personal relationships between *hawaladers* and traders to function so well.

Veterinary services and vaccinations to mitigate the many virulent poultry diseases endemic to Afghanistan are needed but largely absent. There have been several avian influenza scares, apparently originating with imported birds from Pakistan. This is a persistent threat that periodically results in the Afghan government closing the border to poultry imports. Improved breeds are susceptible to other common and highly contagious diseases that can be controlled and prevented with proper vaccinations, medications and hygiene practices—but knowledge of and access to these is not widespread.

Extension services to provide information and training in improved poultry management techniques are also widely needed. Currently donors are the main source of extension services, and these are limited to a few programs.

HORIZONTAL AND VERTICAL LINKAGES

There are few linkages to speak of in the rural poultry sector. Some vertical linkages exist in the form of producers (rural women) selling individually to local traders. Because of low levels of production using the backyard system, women sell their few surplus eggs and the occasional live birds not needed for household consumption on an *ad hoc* basis. In the villages there is no knowledge of how to raise improved breed poultry, or the practice of corralling chickens and providing some of their feed to increase egg production; production levels hardly present incentives for women to form producer associations to market their eggs and buy feed collectively.

Some linkages can be found in the urban poultry markets. Frozen meat importers in Kandahar regularly pair up to buy a container at a time for distribution, for example. Retailers often deal with only one egg wholesaler. Egg and live chicken importers use the same well-established market channels.

D. POULTRY VALUE CHAIN FINDINGS

OPPORTUNITIES FOR AND CONSTRAINTS TO UPGRADING

Clearly, demand for poultry products in Afghanistan is strong and greatly exceeds the supply produced domestically. Because locally produced eggs and live chickens are preferred over imports and frozen chicken, there is an opportunity to help the Afghan poultry subsector expand and improve production in order to capture a larger share of the domestic market. The table below summarizes the constraints and opportunities identified in the foregoing value chain analysis.

Table 2. Poultry Value Chain Participants with Incentives to Address Identified Constraints

Value Chain Participant and Constraint	Value Chain Participant with Incentive to Address Constraint
Producers: lack of knowledge of improved poultry management practices	Supporting market services
Producers: lack of knowledge of prevention techniques and vaccines against avian diseases	Input suppliers
Producers: lack of vaccines and medicines	Input suppliers
Producers: no reliable supply of improved formula feed	Input suppliers
Producers: no reliable supply of improved breed birds for start-up or replacement	Input suppliers
Input suppliers: absence of improved breed parent stock to produce fertile eggs for commercial hatcheries	Input suppliers
Farmers, traders, wholesalers, retailers: lack of cold storage space	Supporting market services
Importers: threat of avian disease outbreak in Pakistan that could result in borders closed to poultry imports and reduced consumption of same.	Government regulators; Importers
Input suppliers: lack of regulations governing imported vaccines, medicines, and feed	Government regulators
Lack of quality control of product at the farm level	Traders/wholesalers

ANALYSIS OF INCENTIVES

There are many constraints to developing an improved breed poultry production industry in Afghanistan. Perhaps the biggest is the lack of highly technical knowledge specific to commercial poultry management, as well as the lack of good business skills in general. The opportunities in the marketplace have been recognized by several local investors who have initiated commercial broiler production or hatchery operations, only to fail for lack of understanding of the technical requirements, production costs and marketing demands. In rural areas the majority of women with backyard chickens are not aware of an alternative management system with substantially higher levels of production and profitability. The few that are aware have no access to the necessary inputs.

Currently, there is very little existing demand or incentive in the domestic market for any one participant group to enter the chain and begin operations, whether it be on the level of production or services to address the constraints. The market potential is recognized by some, but most also see the risks and understand they cannot address the constraints without more active participation by other players along the value chain. Existing demand for inputs and sector-specific services is too low to attract reliable, good-quality providers into business because there are not enough producers—and producers in turn cannot get a reliable supply of the necessary inputs and services (a classic "chicken and egg" conundrum). It seems that the only modern poultry production model that can work currently in Afghanistan is an entirely vertically integrated operation in which a technically qualified investor/operator is able to incorporate everything from the production of improved breed chicks, production of proper feed, veterinary care, layer and broiler growing houses and marketing of the eggs and meat.

Donors have also seen the potential of the poultry sector and have set about solving the conundrum by funding programs that simultaneously train producers, supply inputs and establish the supporting service providers to create a critical mass of activity flowing along the value chain. However, these initiatives seem to break down eventually due to the difficulty and expense of sourcing and importing the majority of the necessary inputs, and the arrival of avian flu which closes the border to poultry between Pakistan and Afghanistan periodically.

RELATIONSHIP BETWEEN THE POULTRY VALUE CHAIN AND CONFLICT DYNAMICS

The poultry subsector has been affected by conflict in the same way as the larger economy: conflict has limited and in some cases halted growth. This is in part due to the fact that formal education and the transfer of technical knowledge and business skills stopped, while the costs of production increased steeply. Access to the inputs for improved breed poultry production was cut off. The conflict today is still raising the cost of production in most sectors and constraining the flow of knowledge and potential return of diaspora investment and business acumen. The fact that most poultry producers are women has also greatly affected the sector's growth, since they live most of their lives behind the walls of their compound, with extremely limited access to new knowledge, methods and markets. This is not attributable to the conflict, however, except to the degree that women's isolation intensified during the Taliban years. Otherwise there are no obvious intersections between poultry value chain participants and the conflict participants that are causing grievances, or conversely, that could be leveraged to mitigate the conflict.

IV. STATEMENT AND ANALYSIS OF CASE STUDY RESEARCH QUESTIONS

The preceding sections of this paper offer a narrative of the conflict in Afghanistan and the situation of two value chains with the aim of gleaning some guiding principles and best practices for applying the value chain approach in a conflict-affected environment. This section presents an analysis of interventions made in the two value chains. The three research questions investigated are immediately below.

1. How can the value chain approach be used to rebuild markets in a conflict-affected environment?
2. How can sector selection and value chain analysis tools be used and/or adapted to a post-conflict situation and the need for quick action?
3. How can strategic subsidies be used to lay the groundwork for an eventual transition to a market-driven economy with minimal or no market distortion effects?

The brief descriptions of the projects in each value chain given in the introduction provide the context for the more detailed descriptions and analyses of activities answering the individual questions.

A. QUESTION 1. HOW CAN THE THE VALUE CHAIN APPROACH BE USED TO REBUILD MARKETS IN A CONFLICT-AFFECTED ENVIRONMENT?

Among the explicit goals of the GRAPE project under RAMP/Roots of Peace were to regain the former regional markets for Afghan raisins as well as secure new ones, and to find foreign markets for fresh grapes, which, unlike raisins, had never been exported on any scale from Afghanistan. The goal of the Women's Poultry Project, on the other hand, was to capture a larger share of the existing domestic market for eggs and fresh meat that was being supplied by Pakistan and Iran.

The value chain approach can be used both to rebuild former markets and to create new markets in a conflict-affected environment. As in a non-conflict-affected environment, the key to doing either is starting with an end-market analysis. With the information about buyer demands and needs gained from the end market analysis, it is possible to identify constraints and opportunities all along the value chain, and then render assistance to participants accordingly. Investing in bringing the buyers and sellers together to carry out the end market analysis and facilitate deals is especially important in a conflict environment where participants are extremely risk-averse and where social and business relationships have disintegrated under the stress of lengthy conflict. Helping to bring about actual sales deals is equally important in this situation because it produces the critical missing link—a sales order—which is the incentive for participants to upgrade as necessary. In addition to intensive facilitation, it is very likely that substantially more financial and technical assistance will be needed by participants at most levels of the chain to make the necessary changes to meet buyers' demands. Creating this demand-pull effect by working with the end-market sellers to increase sales is also one way to begin creating the vertical and horizontal linkages that are often missing in a war-torn society.

RAMP and ASAP worked directly with traders to send test shipments to prospective foreign end markets, and helped them connect with buyers and consumate deals. It was not an easy process as there were many logistical hurdles to overcome and it took repeat efforts during more than one harvest season to successfully connect Afghan exporters with foreign buyers. But buyer relationships were made during the 2007 harvest season in Pakistan and India, and the orders are now coming in. The traders are now convinced that these markets are accessible to them, and understand

the higher profits to be made in delivering product to meet those market requirements. It will take at least another season to see whether the hoped-for vertical and horizontal linkages develop as a result of exporters communicating the market requirements back down the chain, but certainly the incentives are now present.

REBUILDING GRAPE AND RAISIN MARKETS

END MARKET ANALYSIS BY BRINGING BUYERS AND SELLER TOGETHER

ROP took Afghan traders on a mission to India in April 2005 to demonstrate how the Indian fresh grape market functions. They made contacts with several Indian importers who were interested in receiving some test shipments of Afghan grapes. The traders also saw what their competition was in this market in terms of product quality and marketing techniques, which were considerably more sophisticated than their own. According to the report by the ROP staff person accompanying the traders, they returned home determined to take on the challenge of penetrating this market, infused with confidence that they would be able to do so. They also met an Indian merchant who planned to come to Afghanistan and export Afghan grapes to India. It was expected that the Afghan traders would learn from the merchant's packaging and non-refrigerated transport techniques and be able to start shipping grapes to India on their own. This trip was unfortunately aborted due to deteriorating security in Kandahar.

EXPLORING END MARKETS VIA TEST SHIPMENTS

During the partial 2005 harvest season in which ROP was able to operate in Kandahar before the security situation forced their withdrawal, the project sponsored 12 test shipments of fresh chilled grapes to India, Saudi Arabia, Dubai and Kuwait. From Shomali, 17 test shipments were sent to the same countries, plus Ukraine, the U.S., Germany and Russia. Test shipments of raisins were sent to Ukraine and Russia as well. Because of project timing, GRAPE was only in operation during the one harvest season of 2005. RAMP ended before the 2006 harvest, and ASAP did not start until after the 2006 harvest, so it was not possible to follow up and capitalize on the learning and linkages that had taken place from the 2005 test shipments and trade mission until 2007.

ASAP took up where RAMP left off in working with traders to export to new markets. For the grape harvest season starting in September 2007, ASAP worked with the Kabul Consortium—six dried fruit and nut exporters— to export fresh chilled table grapes. The project planned to demonstrate the feasibility and profitability of exporting chilled grapes to Pakistan. Pakistan became the focus as opposed to India in this first round under ASAP because of the shorter trucking distance and one less border to negotiate, and the fact that Afghan grapes are better known in Pakistan.

Grape Cleaning and Packing at Mir Bachakot Market Center for Test Shipment to Pakistan

TECHNICAL AND FINANCIAL ASSISTANCE TO MEET NEW END MARKET DEMANDS

ASAP guided the exporters in all processes from harvest to final sale, training them in generally accepted produce handling practices, packing and cooling. Operations were carried out at the RAMP-funded grape packing and cooling house in Mir Bachakot, which is

operated by ASAP[15] and available for use by private produce packers for a fee. ASAP then assisted with test shipments to six major urban markets in Pakistan to determine the most feasible and profitable market for Afghan grapes from the Shomali area. Lahore turned out to be the most promising market. The exporters saw their properly handled, packaged and chilled grapes bring four times the profit of other Afghan grapes shipped in traditional wooden crates without refrigeration.

FACILITATING DEALS

At the time of the research visit for this case study, the consortium members were preparing more shipments of chilled grapes to wholesale auction markets in Pakistan. They were planning with ASAP's help to contact buyers from new supermarket chains in Lahore and Karachi to look at samples and discuss sourcing chilled grapes from Afghanistan. A few weeks later, ASAP facilitated shipments of pomegranates, melons and the long-life Taifee grapes to an Indian cold store, to be offered at the wholesale auction and to the larger grocery store chains in New Delhi. The trip was timed to coincide with the India International Trade Fair, at which ASAP had reserved a booth for Afghan fruit exhibits in an Afghanistan pavilion sponsored by USAID. There was much anticipation about the prospects of supplying grocery store chains directly, as this is a potentially huge and very profitable new market for the Afghan exporters.

The Afghan grapes performed well on the wholesale auction market in Delhi, fetching prices comparable to Indian grapes and rendering a gross profit of 15 percent over the exporting costs. It became clear that there was great interest in and willingness to pay well for fresh Afghan fruit in India. Two of the six grocery store chains visited with commercial-sized samples were enthusiastic about buying from the Afghans. One was particularly keen on sourcing directly from the traders, bypassing the Indian wholesalers, which would increase the profit for the Afghans by $.30 per kilogram. This particular supermarket offers massive sales potential for Afghan produce. Currently numbering 380 retail grocery stores, it plans to expand to 1,000 stores by March 2008. A follow-up trip is planned with another major marketing company from Kabul in January 2008 to help build a direct supply relationship with the supermarket chain.

SYSTEMIC-LEVEL DEAL FACILITATION

ASAP has also undertaken a market-building activity at a more systemic level by hosting two agricultural fairs in Kabul in six months. ASAP built a demonstration farm and fair grounds on Ministry of Agriculture land near Kabul, and organized the two national agricultural fairs there this year. One purpose of these fairs is to bring national and international buyers and sellers of agricultural products together to meet, inspect samples and take orders. Another purpose is to demonstrate improved agricultural approaches and techniques. Thousands of people who came to the fairs saw the new methods and technologies exhibited. The technologies relating to the grape/raisin value chain include a large field of trellised grapes, an improved shade-drying raisin shed called a *kishmish khana*, and several water management systems for vineyards. The *kishmish khana* created quite a sensation, and subsequently about a dozen farmers have constructed them on their own farms, with many more requesting project assistance to do so. These are used to produce the highly prized shade-dried green raisins that command high prices in both the domestic market as well as in Pakistan and India.

The trade fair in India to which ASAP escorted Afghan traders and their fruit provided a valuable marketing venue to spread awareness of the availability and desirability of fresh Afghan fruit, and to test Indian reaction to the quality and price. It was favorably received by the thousands of Indian consumers who visited the fair during the two weeks. Samples were sold to more than 2,000 consumer visitors out of a total of 40,000 visitors to the booth.

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[15] Transferring ownership of the Mir Bachakot market center to the trader association as planned under RAMP proved problematic because it was built on leased land with a 5-year grace period before lease payments would have to be made. The trader association is unwilling or unable to assume the lease payment for the moment. Thus it is currently operated by ASAP until the land lease, ownership and cost issues can be sorted out.

ASSISTANCE TO SUPPORTING MARKETS

Since the completion of the grape harvest and test shipping, ASAP's next priority is facilitating a solution to the lack of good carton producers in Afghanistan. This is a critical constraint on the export of chilled grapes and other products, and a surprisingly difficult one to solve. Several packaging manufacturers throughout the country have been approached for samples, but no satisfactory cartons have been produced to date. ASAP hopes to work with local manufacturers to produce the desired crush-proof cartons with ventilation that are essential to the successful marketing of Afghan produce in foreign markets.

ASSISTANCE TO FARMERS

Assistance to farmers is continuing in the same vein as under RAMP, with emphasis on spreading adoption of trellises and other improved cultivation practices.

IMPACT: GRAPE/RAISIN MARKETS

In the attempt to rebuild or recover export markets, RAMP succeeded in helping a number of traders to get information about and make contacts in export markets. Below is a list of the transactions and activities RAMP supported to create and rebuild markets:

- 10 Afghan exporters took part in trial exports of chilled table grapes
- 103 metric tons of chilled grapes were exported in 2005
- Four metric tons of un-chilled grapes were exported in 2005
- Trials made of air and land options for export transportation
- Exporters helped to double-process 100 metric tons of sun-dried raisins to international quality standards
- 70 samples of certified quality raisins were sent or taken to international buyers: 7 to the USA, 23 to Russia, 31 to Ukraine, 6 to Israel, 6 to the Netherlands, 5 to Germany, 4 to Kuwait, and 2 to India.
- One raisin marketing trade mission to Russia and Ukraine took place, resulting in purchase orders for over 1,300 metric tons

Trellised grapes at Mir Bachakot Market Center

One year was hardly enough time to reestablish international markets when starting from as rudimentary a level of production, processing, transport and association development as exists in Afghanistan. Thus, trade facilitation activities started under RAMP were resumed under ASAP. Afghan traders were linked to potential markets for grapes in Pakistan and India during the 2007 season, and are now positioned to export next season. The volume of grapes shipped to India, at some 2,100 kilograms, was small compared to shipments under RAMP, because the strategy was to offer small samples to commercial customers as examples of what could be sourced from Afghanistan in future sales, as opposed to selling off as much of the current season's harvest as possible, as was the case under RAMP.

Support to the traders' consortium will give them a stronger market presence and the potential to influence the government's policies, such as bilateral trade agreements with Pakistan and India, export certifications and taxes. It was reported during the field visit that the Afghan government had successfully negotiated with the government of Pakistan to drop the requirement that Afghan produce be unloaded from Afghan trucks at the Pakistan border and loaded onto Pakistani trucks. Still more recently it was learned that India had dispensed with similar restrictions. Whether this is attributable to lobbying by the trader associations is not confirmed; certainly their higher visibility as an association rather than as individuals is beneficial to their ability to influence the enabling environment.

LESSONS LEARNED: GRAPE/RAISINS

Roots of Peace (ROP) reported some important lessons learned during project implementation for continuing efforts to rebuild these markets.

- In general, grape traders were largely unwilling to risk their products in new markets and were not prepared to make the investments necessary to break into these new markets. Thus the test shipments and trade missions ROP conducted were heavily subsidized by the project. The only way to get the traders to participate was to remove the lion's share of the risk for them. This meant ROP paid for the grapes, handling, packaging and shipping. Under ASAP, the financial assistance has been scaled back because the initial skepticism and perception of risk was significantly mitigated by the ROP activities. For example, ASAP did not buy the fruit or pay for the transport in the test shipments to Pakistan and India. It did facilitate the logistics of piecing together a cold chain from Afghanistan to Pakistan and then to India, and facilitated the contacts with buyers in both countries.

- Traders were also unaware of the quality requirements of these markets. Physically taking the traders to the markets as both RAMP and ASAP did was critical to their gaining an understanding of the requirements.

- In general, traders were not paying farmers a premium for top quality grapes, so farmers had no incentive to produce them. As a result traders ended up with a mixture of both good- and poor-quality grapes, many unsuitable for export. This will only begin to change as traders receive orders from exporters for top-quality grapes, which being in short supply will necessitate that the traders pay farmers growing them a higher price.

- Foreign buyers were skeptical of the quality of Afghan goods and were only willing to take shipments from Afghan exporters on consignment. They would not pay in advance even after receiving samples under RAMP. The buyers in India appear ready to pay up front now.

- Proper packaging for international shipments was not produced in Afghanistan, and imported packaging is prohibitively expensive. ASAP is still working to find a willing Afghan carton maker to produce the correct cartons.

- Reliable air shipping services out of Kabul did not exist. The national airline could only confirm available space 24 hours in advance. Lack of reliable air transport remains a constraint.

- The lack of farmers' and traders' associations in the Shomali Plains was a constraint on ROP's extension and export work; every farmer and trader was working individually. This hampered communication of information about end-market demands. ROP's original project design included the formation of Farmer Owned Businesses. These were to be legally formed groups of farmers for the purpose of accessing credit collectively, and would also create the missing horizontal linkages needed to facilitate learning and upgrading. This component of GRAPE was dropped after the consultant specializing in the formation of these organizations did an assessment in Shomali and determined that the level of education and business skills among farmers required for this was not present.

Other factors contribute to the lack of existing farmer associations, including that incentives to cooperate are not sufficiently strong or understood by the farmers to overcome the famous Afghan penchant for independence. Farmers would rather go it alone. The lesson is that building horizontal linkages in this market requires much greater growth in capacity and trust than originally understood. Facing an insurmountable obstacle to the formation of producer associations, RAMP and ASAP continued fostering the market linkages at the top of the chain on the hypothesis that the willingness to cooperate would materialize when the profit potential for doing so became more obvious as a result of growing demand for exportable grapes and raisins.

CAPTURING THE POULTRY MARKET

BUILDING STRONG LINKAGES

In the poultry chain it was not possible to bring the sellers (village women) to the buyers (urban wholesalers and retailers) because most rural women do not often leave their homes, much less their villages. This market link was a critical obstacle, as increasing production would be futile if the surplus could not be brought to market consistently. The project's response was to create an exceptionally strong network of both horizontal and vertical linkages between the project's provincial supply centers and trainers, village group leaders and village producer groups. After two years, 850 producer groups had been established (there were 1020 producer groups by the end of the project); 203,926 birds had been distributed to 21,356 trainees; and 2,545,281 eggs were being marketed per month. The numbers increased and the model was working well by the end of the project. It is interesting that the project was so successful in creating the linkages in light of the difficulty encountered in the grape/raisin chain. It may have been due to gender and the willingness, even eagerness of this most vulnerable group in Afghan society—mainly widowed and otherwise impoverished women—to associate and cooperate. The strong emphasis and significant resources devoted to training, capacity building and support in organizing and encouraging the networks was also certainly critical.

Poultry Extension Agents and Village Producer in Shomali Plain

ENABLING ENVIRONMENT OBSTACLES

The FAO was unable to obtain official government registration for the village producer groups into provincial level associations under the umbrella of an Afghanistan Rural Poultry Development Federation. This would have allowed the privatization and continued functioning of the provincial supply centers as businesses without further donor funding. The businesses would have been owned and operated by the technical staff and regional trainers who had been running them as integral members of the value chain under the FAO. As a contingency plan, the FAO was working to get World Bank funding for a bridge project, but by the end of RAMP in June 2006 neither privatization nor bridge funding had been obtained. As a result the project staff running the provincial centers had to go elsewhere, the feed mills fell idle, shipments of replacement chicks were not ordered, and the production-marketing network so successfully built over two years gradually ground to a halt. A year and a half after the RAMP project ended, village women who had been successful producers under the FAO program are still practicing the improved methods as best they can with their last few improved breed layers, who are long past their prime. These women are eager and able to buy the feed and replacement chicks to continue production because they experienced first hand the success of the new methods, but the inputs are not available to them now that the FAO's operations have shut down.

LINKAGES BROKEN

This approach achieved the objective of capturing part of the market that had been dominated by imports, but it depended on a regular supply of imported chicks and special formula feed. These are available from Pakistan to some extent, but the rural women cannot easily access these sources. When their provincial supply centers shut down, they were effectively cut off from input supplies. The question is whether the system would still be functioning if the supply centers had been privatized. Were they commercially viable? The poultry experts who staffed them say they

would have been, and the women we met were pleading for chicks and feed to buy, which indicates the demand still exists for the inputs and the women producers would still be producing at the previous levels if they could buy them.

IMPACT: POULTRY

Although the impact the poultry project had on building or capturing the market was temporary, the project did have significant impact in other ways. The lasting impact the project made is in the social connection, trust and cooperation it created between rural women who had never experienced anything like it before, and the increased empowerment from being trained in new skills and earning more income. The women in the producer groups now have a support system, a place to discuss and solve issues other than poultry that they did not have before. This provides a potential base for further empowering an extremely vulnerable and disenfranchised segment of the population. Because the incentives to stay connected are still compelling, and the capacity to raise poultry was truly mastered by these women, there is a good chance that the producer-marketing chain could be revived if the input supply problem is solved.

LESSONS LEARNED: POULTRY

One of the important lessons learned about building poultry markets is that the vertical linkages in this chain were at least as important as the horizontal ones for purposes of maintaining production. The enforced isolation of most producer women made access to inputs very difficult for them; the vertical linkages within the chain that supplied a steady stream of inputs were essential, and equally important to getting the eggs to market. Another lesson was that constraints posed by the enabling environment must be sufficiently understood and planned for, and further, that all actors in the chain must be commercially viable businesses for the chain to be sustainable. That lesson informed the rationale behind ASAP's aborted plan to create a self-contained vertically integrated poultry enterprise that would include 200 women from 50 villages who had already proved their poultry production capabilities under RAMP.

B. QUESTION 2. HOW CAN SECTOR SELECTION AND VALUE CHAIN ANALYSIS TOOLS BE USED AND/OR ADAPTED TO THE POST-CONFLICT SITUATION AND THE NEED FOR QUICK ACTION?

In the case of both RAMP and ASAP, it does not appear that either sector selection or the value chain analysis tools used were adapted to or affected by the underlying conflict situation. A formal conflict analysis was not in fact carried out at either project's inception. The question of ethnic conflicts and possible impact on the value chains was not factored into the selection of chains, nor the design of the interventions. Information relating to the value chain governance questions was gathered during the sector analyses and rapid appraisals, but it focused on questions of economic power and benefits without looking for an underlying cause related to ethnic tension or a preponderance of power and economic benefits in the chain accruing to one ethnic group over another. In all the project documentation reviewed and interviews conducted no discussion of ethnicity was encountered. The research team concluded that whether this was an oversight or intentional, the need to factor in ethnic tensions was not felt since no corrective action or analysis was taken later in the projects. If there had in fact been a need to do so, it would likely have been flagged by the local staff on the project, who presumably have first-hand understanding of these issues. Nevertheless, this study analyzes the selection criteria and value chain tools used by RAMP and ASAP, and draws some conclusions about whether they were effective as applied.

Import substitution is a very useful strategy for identifying products that enjoy strong consistent domestic demand and could be profitable and feasible to produce locally. Additional criteria would be modest investment requirements and the presence of adequate human capacity to undertake production, complemented by a friendly enabling environment. The initial success of the poultry project suggests that all but the last of these criteria were met.

For impact in an environment where production, government, social and physical infrastructure have been severely damaged, an approach combining transactional, systemic, enabling environment and cross-cutting market interventions will inevitably have broader and quicker impact on economic recovery than one limited to assistance to individual value chains. RAMP's impact in the value chains would have been nearly nonexistent if it had been limited to working within specific value chains. Value chain analysis is nevertheless extremely effective for identifying many of the cross-cutting constraints on economic recovery of the country in general, as well as the chains in particular, and then organizing an integrated response.

For example, both RAMP and ASAP employed a value chain approach for working in specific product lines. But in addition to providing targeted assistance to the value chains, they included significant separate components for developing infrastructure, governmental capacity, and supporting markets such as finance and agricultural extension services, among others. Combining assistance in these broader areas with assistance to selected value chains magnified the economic impact by contributing to growth in many other value chains and sectors in addition to those targeted by the project.

The compounded impact effect that such a "matrix" approach can have is demonstrated by results reported in an economic impact study that RAMP conducted at the end of the program in 2006. The project's goal was to increase the marketable value of five commodity groups by $250 million. The estimated impact of RAMP's activities on these sectors exceeded the goal considerably. Interestingly, the infrastructure component, specifically irrigation, accounts for 67 percent of the impact. Agriculture activities in all of the five subsectors amounted to 32 percent of the impact, with about 16 percent coming from the fruit sector. This could be interpreted to show that activities aimed directly at the various value chains had much less impact on increasing the marketable value of the value chain's output than those aimed at the enabling environment, i.e. irrigation, did.

An important feature of the approach used by RAMP and ASAP was delivering direct assistance to firms and facilitating individual transactions. Some might call this a departure from the value chain approach—but in an environment as broken and risk-ridden as Afghanistan, it was appropriate and necessary to take a very hands-on approach to individual entrepreneurs and businesses to link them to buyers and to remove most if not all of the risk (cost) of experimenting with something as new as, for example, shipping chilled grapes to India or adopting a complicated new method of raising improved-breed chickens. Based on Chemonics' experience in several other countries, transactional assistance is effective as a value chain development tool. Demand in the form of a tangible sales order creates the profit incentive that trumps most other interventions. Helping to create that demand by facilitating a few large, visible deals has a powerful effect on motivating producers to make upgrades and the horizontal or vertical linkages necessary to fill those orders. As their sales and profits increase, other producers observe the success and follow suit. The whole value chain is eventually affected by a few successful deals that demonstrate to producers the rewards of upgrading and/or cooperating to satisfy discrete buyers' demands, ultimately generating a repeating cycle of demand and supply.

As described in the previous section, ASAP followed up RAMP's efforts to facilitate transactions. Market exploration trips to India and Pakistan in the late fall of 2007 generated highly favorable reactions to Afghan grape samples and strong interest in ordering for the 2008 harvest season. ASAP reported in June 2008 that three grocery chains in India are interested in wholesale purchases of Afghan grapes at a level of 45 metric tons per week for a period of 16 weeks to supply their market when no domestic Indian grapes are available. This increased demand is already creating ripple effects down the value chain to farmers who are purchasing and installing trellises to double their output

SECTOR SELECTION

The need for quick action was paramount in USAID's directives to Chemonics, and this definitely affected the sector selection criteria and interventions mounted. As we will see, criteria for sector selection were more consistent with the

"sustainable economic activity" end of the relief-to-development continuum than the relief end, even though poverty alleviation was the primary goal. Poverty alleviation and economic growth were seen as complementary goals, not mutually exclusive. The top criterion for sector selection was the potential for maximizing farm gate sales over the life of RAMP. The potential was determined by assessing subsectors for: significant market share and demand; significantly less productivity, relative to available best practices for similar development conditions; and constraints that could be overcome with technical assistance initiatives available through RAMP. In the absence of official or published market data, the team developed databases in the five RAMP regions using village-level participatory rural assessments (PRAs) of production and off-farm rapid rural market assessments (RRMAs) of market volumes in input, wholesale, retail and import-export markets to identify the crops with the best potential. Then a historical comparative analysis was conducted for these product groups to estimate their contribution to GDP, followed by a profitability analysis to evaluate whether the products' use of land, labor, capital and foreign exchange was an efficient use of scarce resources in Afghanistan. At the end of this analysis, five product lines were chosen for support: fresh and dried fruit (includes the grape/raisin value chain); fresh and dried vegetables, nuts, livestock and poultry, and wheat and food grains. The livestock and poultry lines fulfilled additional criteria of increasing food security, and presented one of the few opportunities to engage women to increase household income—but the criteria of market demand and potential were not sacrificed in these cases.

Farmer and Son in Traditionally Built Grape Arbor

RAMP project staff also needed to decide where to work. Afghanistan is a large country, and to have measurable impact it was necessary to focus project resources geographically. Five priority regions were selected using these criteria: population density, high potential agricultural production, existence of regional market centers, and the potential availability of transportation to major domestic and export markets. In addition to these criteria, the ultimate selection factor was that the region be reasonably safe for project staff to work in. When the security situation deteriorated past an acceptable level of risk in Kandahar, one of RAMP's designated regions, activities in the grape/raisin chain there were halted.

The criteria chosen do not seem specific to a conflict situation, but rather typical, development-oriented criteria found in many assistance programs where poverty alleviation through economic growth is a goal, with the one exception of security.

ASAP's project goals are similar, and so were the criteria for sector selection. The criteria ASAP employed for selecting value chains to assist were "high value" (implying they could potentially offer an alternative to poppies); the project would have measurable impact on the chain within three years (the life of the project); and that there was a clear market for the chain and that constraints to competitiveness were understood and could be addressed with ASAP's resources. Only the first criterion is related to the conflict situation in that it implicitly seeks value chains to replace the illicit activities characteristic of many conflict environments.

END-MARKET ANALYSIS

RAMP and ASAP carried out end-market analyses for both the grape/raisin and poultry value chains. In the case of grapes and raisins, market analyses included consultant visits to India and research into other regional markets where

buyer demands were not already well known to the assessment team. On the basis of the analysis, RAMP formulated a strategy to develop the grape/raisin subsector to supply local Afghan markets, and be competitive in "second-tier" markets such as the states of the former Soviet Union, the Indian subcontinent, Gulf States and other Middle Eastern countries where quality and phytosanitary requirements are not too stringent. A program to assist the value chain to grow and process grapes and raisins for these markets was then developed in accordance with the buyer demands.

For poultry, the end-market analysis was simpler, since it did not involve foreign markets. The analysis was carried out to determine whether domestically produced eggs and meat could compete with the large amount of imported table eggs from Pakistan. It determined that consumers preferred Afghan eggs to Pakistan's and would pay a higher price for them. The strategy of import substitution was thus identified. To substantially increase the quantity of eggs produced in Afghanistan would require improved breeds of birds, improved feed and medical care, and a two-way distribution chain for delivering the eggs and live birds to market as well as improved feed, vaccines and replacement birds to the village women producers. All of this would require extension training and support to develop the chain.

IDENTIFICATION OF CONSTRAINTS AND OPPORTUNITIES

ROP and the FAO conducted extensive interviews with value chain participants and stakeholders to identify the constraints and opportunities throughout the value chain framework, i.e. from input suppliers to producers, traders, processors and wholesalers, to supporting markets and the enabling environment. There was no obvious adaptation of the assessment process to the conflict environment. The systemic constraints RAMP found in both value chains (discussed in detail in Section III) indicate the low level of economic and agricultural development in Afghanistan:

- Lack of reliable supply and quality of inputs needed for both chains
- Lack of knowledge and access to knowledge of improved vine cultivation and poultry production
- Lack of improved equipment and technology for production and processing
- Lack of credit needed to upgrade for all participants
- Lack of producer associations for economies of scale
- Lack of market information and linkages to potential markets

The GRAPE and the poultry project set out to address all of these constraints. As further assessments were made, however, developing grape producer associations was ultimately dropped because the capacity and interest of farmers to organize was quite low, and facilitating access to credit proved beyond the subprojects' manageable interests, (although RAMP did participate in launching a multi-donor-supported microfinance institution).

BUILDING LINKAGES

The cultural environment of Afghanistan militates against working in the value chains at a systemic level. Rural Afghans are extremely conservative and generally resistant to new ideas from the outside. The resistance seems to come from a combination of limited education, decades of isolation from modern advances, the necessity for extreme self-reliance to survive protracted periods of conflict, and the distrust, suspicion and presumption of corruption that permeates society after so many years of conflict. This seems to explain in large part the dearth of business associations and cooperation in the Afghan economy. The value chain approach is very difficult to implement here using only indirect and systemic-level interventions along the chain when there are so few existing links—and so little natural inclination to form them. This situation calls for a more direct, transactional level of assistance than a systemic value chain approach appropriate for an environment with a higher level of social capital.

TRANSACTIONAL VERSUS SYSTEMIC INTERVENTIONS

An important focus of RAMP and ASAP in their value chain approach was working to solve transactional-level constraints—that is, what prevents individual deals from happening. This is best addressed by firm-level assistance,

when the project gives technical and/or financial assistance to a particular business to help solve a problem preventing it from selling successfully. For example, RAMP provided equipment to three raisin processors to improve the quality of their processed raisins to export. Both RAMP and ASAP helped groups of traders ship their product to foreign markets, meet potential buyers and make sales. This tactic is a deliberate departure from the usual systemic-level assistance of the value chain approach. The rationale for helping "connector" firms in the chain—those larger firms with the potential to buy and sell at the wholesale level, e.g. fruit wholesaler/exporters—is to create a demand "ripple effect" back down the chain, ultimately increasing sales for everyone along the chain. This is much like priming the pump with a few big transactions in order to get many more small transactions flowing in what will ideally become a continuous cycle of demand-pull for the whole chain. But in addition to the firm-level interventions, RAMP and ASAP have also undertaken systemic-level interventions as the list below indicates:

Grape/raisin systemic-level interventions:

- Producers: training and demonstration plots for trellising, pruning, grafting, fertilizing and pest control
- Supporting markets: cold storage, market centers/cold storage, test and certification laboratory
- Input supplies: rural farm supply stores, trellises and nurseries
- Business enabling environment: irrigation and roads
- Market information and extension: National Agriculture Information System and Agricultural Fair

Grape/raisin firm-level interventions:

- Farm nurseries (ultimately had systemic impact)
- Test shipments
- Trade missions
- Upgrading processors' plants

Poultry systemic-level interventions:

- Producers: formation and training of village groups
- Supporting services: extension training for trainers and village group leaders
- Input Supply: feed mills, hatcheries, vaccine/medical supplies at provincial centers

Poultry firm-level interventions:

- Starter kits to each woman

INTERVENTIONS IN CROSS-CUTTING SERVICES AND THE ENABLING ENVIRONMENT FOR BROAD IMPACT

RAMP's implementation was driven by great urgency to get activities underway and create results from day one. In addition to working within individual value chains, both RAMP and ASAP have mounted interventions to improve several cross-cutting service sectors which have had notable success and impact. The provision of cold storage units across the country, a nationwide system of privatized veterinary services, and a rural farm store franchise are having a positive effect on economic activity across several sectors.

COLD STORAGE

Fruits and vegetables make up 42 percent of the annual agricultural output in Afghanistan. Prices of these products fluctuate with seasonality of production. It is estimated that 20 to 30 percent of the value of fresh fruits and vegetables is lost because they are not refrigerated. Forty percent of the products lose some value before reaching the final market. Proper refrigeration and handling can increase the shelf life of fruits and vegetables considerably, which allows sellers more flexibility to take advantage of favorable prices as the harvest season recedes. RAMP installed 59 cold rooms with 25 metric tons of capacity each across ten provinces, working on a cost-sharing basis with several

different groups of farmers, traders and entrepreneurs to locate the cold rooms strategically in relation to markets. These are now privately owned and operated. Two of these were installed by ROP specifically for grape traders, one in Shomali and one in Kandahar, but can be used for any horticultural products.

VETERINARY SERVICES

RAMP worked with the Dutch Committee for Afghanistan (DCA) to expand a network of veterinary services it had started previously. Together, they established 403 Veterinary Field Units (VFUs) in 31 provinces. These VFUs by June 2006 had provided more than 28 million vaccinations and medication for 8 million animals, in addition to other services. The VFUs are individually owned, commercially viable enterprises providing services across the livestock and poultry sectors. Most personnel are qualified paraveterinarians. After five months of training "paravets" were given starter kits with clinical equipment, vaccines and medicines, small freezers and sometimes a bicycle or motorcycle. The network of VFUs is managed by the Afghanistan Veterinarian Association (AVA). Medicines and vaccines are purchased through a private business owned by members of AVA. The DCA provided extensive capacity building in business development and management to enable the network to become an independent, self-sustaining system. The impact on livestock health was appreciable; for example, between 2004 and 2005, fertility rates in goats rose from 8 percent to 80 percent, and neonatal death rate fell from 24 to 2 percent. Work with the VFUs continues under ASAP with the objective of providing nationwide coverage.

RURAL FARM STORES

The VFU model was so successful that ASAP is replicating it in the form of a chain of agricultural supply stores. Franchised rural farm stores are being set up through a large Afghan-owned agricultural supply company that provides training and oversight to the franchises. The franchisees receive assistance to upgrade their shops and extensive training in the proper use of the products they are marketing and business management skills. The concept is to provide extension services at cost to farmers, and perhaps credit that the farmers could pay back in produce, which the shops can trade to wholesalers. The storeowners will also provide information on weather, disease, pests and production to the National Agriculture Information System under development for the Ministry of Agriculture. Out of the planned 300 stores, 100 are open for business. Those in the grape-growing regions are stocking the equipment, chemicals and trellises needed by the grape value chain.

THE NATIONAL AGRICULTURAL INFORMATION SYSTEM

The National Agricultural Information System is a tool being developed by ASAP on behalf of the Ministry of Agriculture. It is a network of national-, provincial- and district-level data, and a GIS. The objective is to improve knowledge of agricultural market conditions and relationships and understanding of market opportunities and requirements. It will be an agricultural sector and market information system that will serve the needs of farmers, transporters, wholesalers, businesses that transform agricultural products and offices of the public sector. It is intended to provide input to an effective communications network that provides a site to share business opportunities, agronomic learning, and a tool of the Ministry of Agriculture, Irrigation, and Livestock to provide extension services to rural producers and processors. It is still in the early stages of development.

IMPACT

Both RAMP and ASAP have employed a value chain approach for working in specific product lines as described in the preceding sections. In addition to providing targeted assistance to the value chains, they include significant separate components for developing infrastructure, governmental capacity, and supporting markets such as finance and agricultural extension services, among others. These separate components contribute to strengthening many value chains and sectors besides those targeted by the project.

By way of demonstrating the impact effect that such a "matrix" approach can have, consider the results reported in an economic impact study that RAMP conducted at the end of the program in 2006. The project's goal was to increase the marketable value of five commodity groups by $250 million. The estimated impact of RAMP's activities on these sectors exceeded the goal considerably, at $1.6 billion. Interestingly, the infrastructure component, specifically irrigation, accounts for 67 percent of the impact. Agriculture activities in all of the 5 subsectors amounted to 32 percent of the impact, with about 16 percent coming from the fruit sector. (The impact on grapes and raisins was not shown separately.) This would indicate that activities aimed directly at the various value chains had much less impact on increasing the marketable value of the value chain's output than those aimed at infrastructure in the enabling environment, i.e., irrigation. Depending on the regions, irrigation improves the yield of most crops in Afghanistan; poppies are the one crop that thrives without it.

FINDINGS AND LESSONS LEARNED

In a post-conflict environment, the holistic, integrated approach taken by RAMP and ASAP will inevitably have broader positive impact on alleviating poverty and restoring markets than one limited to individual value chain assistance. Value chain analysis is nevertheless effective to identify many of the cross-cutting constraints to economic recovery of the country in general, as well as the chains in particular, and then organizing an integrated response.

Building lasting, sustainable horizontal and vertical linkages in Afghan value chains is a major challenge because of distrust ingrained by years of conflict combined with the cultural preference for independence.

Partly as a function of the foregoing lesson, transactional-level assistance is needed in addition to conventional systemic-level interventions in a severely damaged post-conflict environment to generate any real movement to upgrade or venture into new markets in a value chain.

C. QUESTION 3. HOW CAN STRATEGIC SUBSIDIES BE USED TO LAY THE GROUNDWORK FOR AN EVENTUAL TRANSITION TO A MARKET-DRIVEN ECONOMY WITH MINIMAL OR NO MARKET DISTORTION EFFECTS?

The use of subsidies in development work is unpopular; many donors and practitioners look down upon it because it runs counter to lessons learned from decades of assistance given in many environments by many donors. The conclusion has been nearly unanimous: "Giveaways" do not result in sustainable economic activity. On the other hand, in humanitarian relief work subsidies or grants are the norm. Providing food, shelter and clothing to meet basic human needs is the priority—creating sustainable economic activity can wait. One of the objectives of this research project is to bridge this gap between relief and development practitioners with a clearer understanding of how to do both—meet basic human needs and create sustainable economic activity—more or less simultaneously; or, if not simultaneously, at least closer together on the relief-to-development continuum, and in harmony rather than at cross-purposes.

The term "subsidy" is here being used to mean direct financial or material assistance to private individuals and businesses. In situations such as Afghanistan, subsidies make sense and can indeed lay the groundwork for transition to market-driven activity. RAMP and ASAP have given direct financial assistance to thousands of individuals and hundreds of businesses. In most if not all cases, the subsidies have consisted of productive assets or upgrades to assets, or have constituted substantial risk mitigation for the participants.

These two actions—replacing assets (i.e., the means of production) and removing the risk of experimentation—are essential to create more private-sector activity in an environment such as Afghanistan. Most people have lost much of their means of support and are fearful of losing more. Giving women in the poultry project the starter kits and weeks

of training was effective. Using subsidies to motivate participants to try new technologies that prove successful will eventually have a demonstration effect, attracting more followers without the need to subsidize as heavily. An example is the enthusiastic adoption of trellises by farmers after trellised vines on neighbors' demonstration plots resulted in double and triple yields and improved quality. The first farmers received the trellises at no charge. The second group are willingly paying 50 percent of the cost.

SUBSIDIES USED IN THE GRAPE/RAISIN CHAIN PROJECT

In the area of production assistance to farmers, ROP worked through traders to reach the farmers from whom they buy in order to increase the quality and yield of grapes suitable for export. ROP extension workers introduced farmers to new techniques such as trellising, grafting and pruning, and the proper application of chemicals and fertilizer. The equipment, chemicals and plant material needed for these techniques were supplied at subsidized cost to the farmers, sometimes at no cost. Nurseries with replacement vines were also established on the land of farmers willing to take on this supplemental and profitable activity. Direct subsidies mitigated the risk of decreased yields due to new techniques and cost of new technologies such as trellises. The subsidies were an investment in a hoped for "demonstration effect," leading to spontaneous adoption by many more farmers at lower or no subsidy. Trellises were one of the most dramatic successes ROP had in motivating farmers to adopt new yield-enhancing methods.

Newly Manufactured Trellises Ready for Sale

ROP intended to install trellises in demonstration plots on individual vineyards if credit could be arranged for the farmers to buy the additional trellises, but it was not able to arrange the credit. Even so, many farmers were able to buy more trellising posts. ASAP maintains RAMP's focus on promoting the wide adoption of trellising. In fact, other donors are showing interest in supporting this very successful innovation. Farmers have recognized the benefits—double and triple yields of bigger, better quality grapes, less disease and easier cultivation—resulting in growing demand for cement trellises. ASAP contracted with a Kabul cement product fabrication plant to manufacture the trellises, which they redesigned to reduce the cost of production by 25 percent over those originally produced for RAMP. These trellises were being installed at no cost on farmers' demonstration plots under RAMP, and under ASAP are being sold to farmers at 50 percent of their cost. Other subsidies used at various points in the grape/raisin value chain are listed below to give a more complete picture of where they were applied:

Trader/Exporters

- Trade missions and test shipments
- Infrastructure: market centers and cold storage

Raisin Processors

- Upgrades to raisin processing plants

Farmer

- Trellises
- Fertilizer and pest control substances and equipment

- New plant stock

Inputs Suppliers

- Upgrades to input suppliers as franchises of Rural Farm Stores
- Establishment of foundation nursery and farmers' ancillary nurseries

SUBSIDIES USED IN THE POULTRY CHAIN PROJECT

Poultry is a culturally acceptable means for women to earn income, and a relatively fast, low-cost means to increase household food security. Poultry eggs and meat are a good source of animal protein, and they can be traded or sold for cash. The women's poultry project was a good example of using subsidies and capacity building to lay the foundation for a disenfranchised group to play a much stronger role in the market economy. Capacity building was as important as the subsidies. The activity depended on learning new skills, and adopting new practices, new breeds of birds, and obtaining the feed and medicines they required. Rural women would not have been able to access the means of production without the subsidies; nor would they have been able to make productive use of them without extensive training and support.

Female trainers trained village women in six-month cycles. At the end of this time, trainees received a starter kit of 15 crossbred chicks, feeders, drinkers and materials for improved coops, and were organized into village producer groups. The women were asked to contribute 20 percent of the cost of the 15 birds they received to a revolving fund for the village producer group. Originally the kit included just 12 chicks, but it was determined that this might not be sufficient to meet household consumption and produce significant surplus for sale, once chick mortality and unexpected household economic emergencies were factored in. Feed was given at no cost to each woman for the first six months of production. Each group elected a leader to visit her group members freely, as well as travel to urban centers to market their eggs and bring back feed and medicines. She earned a commission for her services. Each group leader was trained weekly by a district trainer in disease control and business record keeping.

IMPACT ON CREATING OR DISTORTING MARKET-DRIVEN ECONOMY

It appeared that no market distortions were caused by RAMP or ASAP's use of direct financial assistance, although certainly those businesses and individuals assisted gained competitive advantages over those not assisted. The large numbers of individuals assisted at most levels in both chains ensured there was still plenty of competition in the market. The exception may be the financial assistance given to the exporter/traders. There are few players at this level of the chain, and they are comparatively well-off and likely to have political connections that afford them unfair advantages in coping with enabling environment constraints. Helping them may have strengthened their positions, but the intention in doing so was to create more opportunities for everyone along the chain by creating more demand for grapes and raisins. Starting at the producer level first is a discredited development strategy that results in increased supply with no increase in demand. The dilemma is how to increase demand if not by working with the players at the top of the chain who by definition are bigger, wealthier and more influential than most others in the chain.

The subsidies used in the grape/raisin chain increased the quality and supply of grapes and raisins, and helped establish links for them to new market outlets. This would seem to qualify as laying the foundation for market-driven activities,, although the market had not stopped operating—it was just far from reaching its potential.

The poultry project's intent was to replace imports with a preferred, cost-competitive product produced by poor, rural women. If production had outstripped urban demand it might have brought prices down or crowded out sales by other producers, but this did not occur.

LESSONS LEARNED

Capacity building is a critical companion to subsidies; the difficulty of inculcating new behaviors can be as great a barrier to production as a lack of the physical means of production.

While the input-producer-market linkages were well established during the project by the extensive capacity building component of the project, the failure to obtain government approval for incorporating the producer groups and provincial centers as a legal enterprise was the main weakness of the project. Without legal status the centers could not operate as businesses and continue procuring the critical inputs of feed and replacement chicks. When assets are created with assistance funding, planning for and executing the transfer of ownership is crucial. This was an issue in the case of the poultry supply centers and in the case of the packing and cold storage plant at Mir Bachakot. In the case of the packing plant, the difficulty in securing land for business use and in getting title to it led ROP to strike a deal with a land owner that seemed advantageous at the time but ultimately made the plant too risky and expensive an asset for the traders' association.

The adoption rate of demonstrated technologies and methods would have been higher if the means to invest (i.e. credit) had been available to the farmers who were persuaded by the demonstration. When subsidies are used in such a way as to create a demonstration effect, the need for further subsidies should decline as chain participants' perceived risk declines in consonance with the demonstration's success.

V. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

In the foregoing analysis attempting to answer three selected research questions, some common themes emerged to inform a few of the overarching questions donors and practitioners face about value chain programming and use of subsidies when designing interventions in post-conflict situations:

- When is the value chain approach appropriate?
- How can subsidies be administered to create an appropriate risk/incentive balance in the market that leads to sustainable economic activity?

In an environment as widely and deeply devastated as Afghanistan was by the Taliban's fall in 2001, value chain programming is most appropriate and effective when inserted in a wider, long-term strategic approach. Because certain basic conditions in the enabling environment must exist before the value chain approach can succeed, it is often not effective to lead with the value chain approach too early in the recovery process, or to rely on it exclusively to achieve broad economic recovery. However, certain principles that are part of value chain programming—specifically systemic interventions and sustainability of results—are very applicable to the larger programming effort in general. In addition, value chain thinking such as identifying opportunities and constraints—can help sort through possible programming options and rank "targets of opportunity" in terms of potential impact and sustainability.

Given the low level of pre-conflict development in Afghanistan, compounded by the high level of disruption during and post-conflict, however, a stand-alone "value chain program" approach would not have been an effective starting point. Instead, the successive programs undertaken by AQIP, RAMP and then ASAP included these aspects as well:

- Engaging elders in identifying quick-impact opportunities on AQIP and RAMP. The elders' advice and buy-in was critical to obtaining the communities' participation in the cash for work programs and the value chain activities in grapes and poultry.

- Focusing on rebuilding specific critical infrastructure such as irrigation systems, roads and bridges under AQIP and RAMP without which it would have been impossible to either increase agriculture production or move it to market.

- Expanding and enhancing the provision of systemic services that would benefit many value chains, such as veterinary services and agricultural supply stores on RAMP and ASAP. In terms of increased production and sales, the assistance with infrastructure and cross-cutting services had much greater impact on the economy than the assistance to specific value chains. This was certainly true in the short and medium term (one to five years). In the longer term the value chain assistance may well deliver much larger rewards, but long-term value-chain results would not be possible without short- and medium-term investments in cross-cutting systems.

- Especially important early in the process with regard to eventual sector selection, the programs started by considering previous crops of importance in the region, specifically tree crops and vineyards, to see if they provided viable targets of opportunity as part of the longer-term economic resuscitation strategy.

Additionally, increasing the food security of a vulnerable population segment (widowed women) with a sustainable, income-generating activity was a consideration in sector selection.

As the programs proceeded (from AQIP, to RAMP and then to ASAP), the blend of infrastructure rehabilitation, creating cross-cutting services, and specific value chain assistance varied, but the focus was consistently on exploiting targets of opportunity with an eye firmly focused on sustainable results. When a value chain "opportunity" is present, operationalizing it must be both strategic and opportunistic: making firm-level investments in some cases. For example, firm level assistance to larger potential "connector" firms, those closer to the end market, to remove whatever blockages are hindering their ability to sell is an important step to creating demand and incentive to upgrade for the feeder/supplier participants lower down on the chain. Blockages may relate to product quality, reliable supply, processing and packaging, available transportation, or regulation. Once the blockage is removed, it is possible to return to a systemic value chain approach to organize and upgrade the feeder firms through training, technical assistance, and facilitating access to upgrades. This was the rationale behind assisting specific grape traders to access larger foreign markets to create demand for larger quantities of higher value grapes on the one hand, and working with farmers to improve varieties, cultivation techniques, and small traders to improve processing and handling on the other hand.

Although the raisin chain was initially identified for assistance because of its historical importance for export, the blockages to returning to high levels of exports were the obsolete processing plants and lack of modern technology. It was deemed too expensive and the factory owners too disengaged to risk substantial project resources on upgrading a few processing plants. The choice was made rather to direct project resources more heavily towards the new territory of exporting fresh chilled grapes, in which the most important blockages were related to end-market information and linkages.

INCENTIVES, RISKS, SUBSIDIES AND SUSTAINABILITY

Related to the preceding question of creating sustainable economic activity is the question of what was learned in Afghanistan about subsidies, how and when to give them, and the importance of an exit strategy. How much and for how long should subsidies be given? Did RAMP and ASAP have a clear strategy for reducing subsidies in the grape chain, e.g. trellises and the trade test shipments? What were the other donors doing with regard to subsidies that would affect the poultry and grape value chains?

RAMP and ASAP gave subsidies based on an understanding of the risks and incentives in the market and placed them to bring them into sustainable alignments. For example, the subsidized market exploration trips to neighboring countries were very risky, so risky that the Afghan traders would not have attempted them without the subsidies. However, the potential payoff was large enough to justify the subsidies in the project staff's estimation. If international buyers were identified on these trips, the benefits would accrue to the whole value chain and cause upgrading and positive changes to meet the new demand. Having established the market linkages with a few defined, finite subsidies, they could be withdrawn without upsetting the new linkages because they did not replace any market or production function in the chain.

With regard to the subsidized production of trellises, the subsidies were withdrawn on a sliding scale as their demonstrated efficacy created sufficient incentive for farmers to pay more for them and buy them from private manufacturers. Ironically, as other donors (such as the World Bank) working to increase agricultural production caught wind of the extreme increase in grape yield trellises could bring about, they became interested in subsidizing and distributing trellises on a massive scale. It is not known whether the Bank is going to proceed with this plan. If it does it would be a good example of how subsidies can end up replacing a market function (private production and sale of trellises) and thereby destroying the sustainable balance of risks and incentives.

Subsidies used by RAMP in the poultry sector followed the principle of balancing risk and incentives in that the subsidies of "starter kits" for women who participated in the training and joined producer groups were necessary to launch these new producers who had no assets of their own to risk save their time and labor. Again, the subsidies were defined and discrete and could be withdrawn without destroying the sustainability of the new value chain, because strong domestic demand for the eggs and meat had been documented prior to embarking on the program. So with one successful production cycle the women were running their own self-sustaining businesses.

B. RECOMMENDATIONS

This section of the paper melds conclusions, practical guidelines, best practices and lessons learned from the research and analysis into recommendations for working in conflict-affected environments using the value chain approach. They are presented below with the corresponding research question.

1. **How can the value chain approach be used to rebuild markets in a conflict-affected environment?**

    - Bring the sellers and their goods to the new market to learn, make contact with buyers and to gain a fundamental understanding of the end-market requirements.
    - Bring buyers to the sellers to communicate their needs, requirements and conditions for buying, and to learn about potential new sources.
    - Use this understanding of end markets to motivate chain actors to make the needed changes along the chain.
    - Work between the bigger players (wholesalers, exporters) at the end of the chain and the producers and input suppliers at the opposite end to achieve the changes that will facilitate sales.
    - Use a transactional approach to facilitating the first few deals to create sufficient demand and thus incentives for producers to respond.
    - Focus resources on creating and strengthening horizontal and vertical linkages in the chain. Be prepared for great difficulty in doing so if the population is traumatized by long periods of conflict and insecurity, and/or, as in the case of Afghanistan, there is little basic cultural inclination to associate and cooperate.
    - Financial gain is a strong incentive to associate and cooperate, as was seen in the poultry sector. Invoke it by finding buyers who will source from many small producers if they are organized to collect and deliver the required quantity and quality of goods.
    - Give technical, financial and material assistance on a scale sufficient to remove as much risk as needed to motivate changes and upgrades at each level of the value chain.

2. **How can sector selection and value chain analysis tools be used and/or adapted to a post-conflict situation and the need for quick action?**

    - Look for sectors that affect different segments of the population, including vulnerable or disenfranchised groups, as well as the existing movers and shakers in the economy, to achieve the twin goals of poverty alleviation and economic growth.
    - Look for links between basic livelihood/food security activities and profitable market opportunities, as in the case of poultry production.
    - Use an import substitution lens to identify underdeveloped domestic chains that have unrealized market potential indicated by strong demand being met by imports.

- Apply a further filter when considering import substitution by looking for products that have consistent and wide demand, reasonably low basic start-up costs, and for which the human capacity required either exists or can be created without too much difficulty.
- Use the value chain assessment process to identify the cross-cutting markets and business enabling environment constraints that are affecting the value chain as well as the larger economy.
- Design interventions to address those constraints as well as constraints specific to the value chain in a "matrix" approach to increasing economic growth and competitiveness.
- Use a systemic approach to the cross-cutting market constraints.
- Use a transactional approach to the value chain constraints when needed to demonstrate success and create "demand-pull" ripple effects along the whole chain.

3. **How can strategic subsidies be used to lay the groundwork for an eventual transition to a market-driven economy with minimal or no market distortion effects?**

- Apply subsidies to activities that will have a strong demonstration effect. Remove as much risk as needed to incentivize a producer or exporter to try something new that, if shown to be successful, will be adopted by other participants, resulting in increased chain competitiveness.
- Use subsidies on a declining scale as the demonstration effect kicks in.
- Use subsidies to supply the initial means of production to those who would not otherwise be able to access them.
- Give enough subsidy to enable the recipient to grow it, rather than consume it.
- Build sufficient capacity to enable recipients to use the assets productively and provide ongoing support until the entrepreneur is ready to "graduate."
- If substantial subsidies and capacity building have been given at several points along the chain, do not withdraw the subsidies and support until some players at each level along the chain are sustainable. The failure of one level in the chain (e.g., input supplies) can be detrimental to the whole chain.
- When creating an operation that will be transferred to non-project ownership at the end of the project, start working on the exit/transfer strategy at the design phase and make achieving it a top priority well before the project end date. Have a contingency plan if funding ends early so the initial investment is not for naught.

C. REMAINING QUESTIONS AND AREAS FOR ADDITIONAL RESEARCH

In Section III of this case, it was stated: "…a rigorous value chain analysis using USAID's value chain framework can be very effective for deciding how to strengthen a subsector's economics, technology and relationships in order to be more competitive. It should also be quite an incisive tool for getting to the heart of how a market is functioning, where inequities lie and what uncompetitive practices are ongoing. Using the framework should result in an analysis that indicates the way to design interventions to correct those inequities and imbalances, as well as improve the commercial competitiveness of the sector."

It was discovered during the course of the field research that USAID did not conduct a conflict assessment as part of planning RAMP and ASAP, so an understanding of how ethnic rivalry and other sources of conflict were affecting the market in Afghanistan and the value chains chosen for assistance did not inform the project design. The sector

selection and value chain analyses conducted under RAMP and ASAP focused on the economics and technology of the markets and, secondarily, how those factors contributed to governance within the value chain, much as they would have in a non-conflict-affected environment. USAID's goal for these projects was to bring about economic growth through agricultural and rural development in the belief that this was the most effective way to improve the economic wellbeing and security of the most people in the shortest time. According to impact studies cited earlier, the economic impact of RAMP was in fact significant. So USAID may well have been correct that this approach was the best to take to achieve economic impact.

What is not known is whether the impact would have been either bigger or more equitable (if it was indeed inequitable, which is not evident) if the project had included an analysis of how ethnic conflict might affect governance within the value chains or the market in general. The statement quoted above that the value chain framework provides the necessary tools to correct governance inequities or uncompetitive behaviors is therefore neither proved nor disproved by this study.

Other questions arising from the research include the following:

1. Would the FAO's poultry producer association model have worked if privatization of the supply centers had occurred in time? How long is needed to establish viable private operations such as the service centers?

2. Would the employee/producer-owned vertically integrated poultry enterprise ownership model conceived under ASAP have worked if it had gone forward? The same model of vertically integrated agricultural enterprises is being initiated by USAID in at least three other locations in Afghanistan. Will it be more or less effective in a conflict-affected environment than working with multiple firms within value chains? Will it create market distortions?

3. Will the buyer contacts recently made in India and Pakistan lead to long-term sales relationships? If so, will the demand-pull effect of the sales lead to more vertical and horizontal linkages and motivate the producers and traders to upgrade?

ANNEXES

ANNEX A. LIST OF REFERENCES

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ANNEX B LIST OF INTERVIEWS

Name	Organization	Title
Louis Faoro	RAMP & ASAP	Chief of Party
Thomas Brown	RAMP & ASAP	Agribusiness and Association Manager
Thomas Fattori	RAMP & ASAP	Technical Advisor & Deputy Chief of Party
S.A Mustafa Hashemi	Institute of Raisins and Other Dried Fruit for Export Promotion, Ministry of Commerce and Industy	Institute Staff
Ab. Fatah Noor	Durukhshan Agriculture Social Association	Deputy Director
Mohammad	Pawan Bastan Improved Seed Company	Director
Ahmad	Bank Millie Afghan	Sales Person
Mahmood	Pashtany Bank	Sales Person
Lorene Flaming	ASAP	Senior Policy Adviser
Vas Aggarwal	ASAP	Sr. Agriculture Specialist
Mohammad Sharif Usmani	ASAP	Agribusiness promotion Specialist
Mohammad Haroon Nessar	ASAP	Poultry Production Manager
Marghalarai Barekzai	ASAP	Poultry Production Manager
Homa Ahmadi	ASAP	Poultry Production Manager
Qamar Ghazanfari	ASAP	Poultry Production Manager
Andres Judeh	RAMP &ASAP	Agribusiness Director
Timothy Mooney	RAMP & ASAP	Director, Asia Region, Chemonics
David Guier	RAMP	Director, Asia Region, Chemonics
Ronald Ivey	RAMP	Senior Vice President, Asia Region, Chemonics
John Ames	RAMP	Field Operations Manager
Zach Lea	Roots of Peace	Executive Director
N. Sherzai	Roots of Peace	Deputy Extension Leader
Farmer #1	Shomali Plain	Grape farmer
Farmer #2	Shomali Plain	Grape farmer
Farmer #3	Shomali Plain	Grape farmer
Farmer #4	Shomali Plain	Grape farmer
Women's Village Poultry Producers group	Shomali Plain	4 women producers
Woman Poultry Producer	Shomali Plain	
Homyoon Aslamy	Bagwan Fruit Company	President

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