

THE RAPID EXPANSION OF DRIED FRUIT AND NUTS EXPORTS: THE KABUL DRIED FRUIT AND NUTS CONSORTIA AND ANGAZA LIMITED

Case study prepared for the Enabling Environment Conference

I. CONTEXT AND BACKGROUND

The dried fruit and nuts sector

After decades of war and economic isolation, Afghanistan's historical reputation for the production of quality, uniquely flavored dried fruit and nuts, exported throughout the world, has diminished considerably. The years of war destroyed vineyards, orchards and infrastructure and degraded the irrigation system, leading to the destruction of the entire sector. Four years of drought, from 1998 to 2001, further exacerbated the already fragile situation. As a result, the current production and exports are far below historical levels: in 1977, the export revenue from dried fruit and nuts was at US\$ 82.1 million, and by 2003 it had fallen to US\$ 41.7 million.¹

Currently, between 300,000 and 400,000 farmers² are working in the dried fruit and nuts sector with an estimated gross income per unit (from vineyards and orchards) that is three to seven times higher than for wheat.³ Research over the past several years has indicated that if Afghanistan's dried fruit and nuts sector regained its past levels of production, and if value-added processing were increased, the impact on Afghanistan's economy would be enormous.⁴

Domestic and international markets

Presently, two-thirds of Afghan dried fruit and nuts production is consumed within the country. The strength of the domestic demand for high quality products is reflected in the fact that, in addition to the demand for Afghan products, domestic consumers favour higher quality products imported from the U.S.⁵

Internationally, the Afghan dried fruit and nuts sector and its products have a mixed reputation. In India, the largest and the most accessible external market due to its proximity, Afghan dried fruit and nuts are very popular. Indian consumers are prepared to pay high premiums for Afghan dried fruit and nuts as opposed to similar Indian products: one can expect to pay US\$ 5.60 to US\$ 7 per kg for Afghan products in comparison to US\$ 3.26 per kg for Indian products.⁶ However, in sharp contrast to the Indian market, Afghan dried fruit and nuts have a very poor reputation in the European and U.S. markets. This is primarily due to the quality of production, processing and packaging. Afghan traders are not considered to be reliable, and their uncertified products are not considered to meet hygienic standards.

The story of the Kabul Fruit and Nuts Consortia and Angaza Limited

The Kabul Fruit and Nuts Consortia

The establishment of the Kabul Fruit and Nuts Consortia, a group of seven small to medium-scale dried fruit and nuts traders and processors,⁷ is an OTF Group initiative. An assessment of Afghanistan's internal and external market for Afghan dried fruit and nuts recommended that only consortia of dried fruit and nuts would be able to compete in the world market. The Kabul Fruit and Nuts Consortia has proven to be very successful in increasing the revenue from exports and overcoming transportation and trade constraints with India. The Consortia employs 4,100 people and has a production capacity of 200 tons per month.

Angaza Limited

Angaza Limited is one member of the Kabul Fruit and Nuts Consortia. Its Director inherited the current dried fruit and nuts processing, packaging and trading business from his father, who established it 80 years ago. He is also the Director of the Kabul Fruit and Nuts Consortia.

Until 2001, the business did not have a legal status. During the Taliban period, with little trading going on within Afghanistan, products were exported to Pakistan without their being recognised as Afghan products. With no recognised status as traders, there was no access to India.

Once the new Government came into power in 2001, Mr Haji M. Hassan expanded the family business and established Angaza Limited. The business licence was initially granted by the Ministry of Commerce; an AISA licence was obtained subsequently. Angaza Limited's main focus is the packaging and marketing of the processed products, with exports primarily to India and sales in the domestic market. The raw material is brought in either directly from farmers or from the markets where the farmers sell their products.

In addition to four permanent staff members, unskilled labour is employed on a daily basis and paid a daily rate. The unskilled labour force is comprised primarily of very poor and widowed women, hired for sorting and packaging the dried fruit and nuts. Fruit and nuts are manually sorted and packed, negatively affecting the quality of the product offered to consumers. Yet the skill level of the staff would not allow them to operate machinery, were it available. The number of unskilled employees varies with each harvest collected during the year and the seasons. During

peak time (August, September and October), about 80 employees work on cleaning and packing the products. During the months of June, July and half of August, considered to be the low season, 15 to 20 employees work in the factory.

The company has grown by 45 percent since 2001. The period of most rapid growth was from 2005 to 2006, with the growth due essentially to the identification of new export outlets outside Afghanistan, particularly in India.

In 2005, Angaza Ltd expanded its trade to Hamburg, Germany via Karachi. Even though the volume of exports to Hamburg is still not significant compared to the volume exported to India (one container per year versus two containers per month respectively), the Director considers it as an initial attempt to win the hearts, minds and trust of European consumers and wholesalers by offering high quality Afghan dried fruit and nuts.

Future prospects

In the absence of much needed land upon which to erect the necessary industrial premises, it is difficult for the private sector to create a long-term business development strategy. The management of Angaza Ltd is focusing on how to overcome the land issue:

“Until the problem of land is resolved I cannot think about further expansion of my business. At present I am not thinking about Angaza Ltd. My only concern as the Head of the Dried Fruit and Nuts Association as well as the Director of the Kabul Fruit and Nuts Consortia is to find and procure much needed land. It is difficult for me even to think about exploring the wider international market since we are not able to provide either the required quality or the volume required.”

II. ANALYSIS OF KEY CHALLENGES ENCOUNTERED

As their businesses grow, Angaza and the other members of the Kabul Fruit and Nuts Consortia have been able to demonstrate successful business development over the past years. The creation of the Consortia has been a key factor in the ability to develop exports to India. They have faced and continue to face a range of challenges, some in terms of their own business development and others in relation to the environment in which they operate. This section lays out the main challenges in relation to the business environment.

Access to land

Processing, packing and storing dried fruit and nuts require plants and warehouses, for which land is required. Currently, Angaza Ltd operates in very poor conditions on a small plot of land in a poor residential area of Kabul, surrounded by ruins and refuse dumped by traders from a nearby local market. In the case of Angaza, there is an urgent need for land away from the residential areas and from an unsanitary environment with no electricity. In 2004, the Director began to look for a plot of land to build a new facility and install new machinery, allowing the enterprise to operate under proper sanitary conditions, resulting in higher quality products.

“The Government raises the issue of poor quality of Afghan products and the fact that Afghan dried fruit and nuts are not competitive in the world market. However, if you are looking for the ways to improve the quality of goods, it all comes to land. Once we have land we can build and equip factories that will allow us to improve the quality of our products by allocating special places and sanitary standards required for processing, and, most importantly, it will allow us to reach the high standard of quality for the Afghan product which is vital for external trade. As you see, whichever door you choose to go in you hit your head on the same wall.”

In the view of the Director of Angaza, access to land is the most urgent issue in Afghanistan. The experience of the Consortia is that procurement of land from the Government through either purchase or lease is a long and painful process, further complicated by complex administrative procedures that can take years to complete.

“Being a Director of Fruit and Nuts Consortia as well as head of the Dried Fruit and Nuts Association, which embraces 21 Kabul-based sector processors and traders, I started looking for

land to buy on which we all could build our factories in 2004. With the approval of the First Vice-President and further verification by the Minister of Commerce, I was granted permission for a plot of vacant land (65 jeribs) located in Juma Muhammadi industrial park in Kabul. However, when it came time for AISA to issue a title to the land, documents were put on file and forgotten for almost two years with no explanation. We are not asking for free land from AISA. Each of us operating in Kabul is ready to contribute to the cost of the land whenever it is needed. However, for more than two years the land has remained vacant and we are ready to pay US\$ 20,000 per one jerib in order to establish our factories.”

From the point of view of AISA, the necessary documentation regarding this land transaction has not been provided, accounting for this case not being resolved.

Unpredictable and inconsistent taxation environment

In early 2005, a Presidential decree exempted dried fruit and nuts exporters from taxes in order to promote exports. This exempts the industry from the business tax and export taxes. Prior to this Decree, the dried fruit exporters paid 2.5 percent to customs as an export tax and two percent of the total product value as a mandatory contribution collected by customs in favour of the Afghanistan Red Crescent, totalling 4.5 percent.

However, following the Decree, despite being tax exempt, the traders have been required to pay 16 percent of the total value of exported products as an export tax which, according to government officials, goes to the Afghanistan Red Crescent. The enterprises in the sector have received no satisfactory explanation and/or justification from the Minister of Finance, AISA or the Chamber of Commerce.

Multiple export controls

There are three different export controls between Kabul and the Pakistan border: Kabul, Jalabad and Torkhan. Each of these controls obliges the exporter to go through the same procedures as in Kabul and each requires a stamp. This entails additional time and expense, when one control of exports would be sufficient.

Absence of an agreement with the Pakistani authorities on transit of Afghan goods

During the course of transit of Afghan products through Pakistani territory to India via road, Afghan traders come across numerous problems and difficulties within Pakistan. As Afghan trucks are not allowed to cross the border into Pakistan, traders have to load and unload their products on and off Pakistani trucks - first at the Pakistani and then at the Indian border. This process means that the goods have to be loaded and unloaded five times, starting from Afghanistan's official and unofficial customs controls via Pakistan to India, before the product reaches the end point, which negatively affects the quality of the products.

Lack of support from the Raisin and Dried Fruit Export Promotion Institute

Dried fruit and nuts enterprises contribute in kind to the financing of the Raisin and Dried Fruit Export Promotion Institute, designed to be independent of the Government, although Government appointees hold key positions. Yet, processors and traders have not benefited from the existence of the Institute, despite its mandate to provide support to and respond to the needs of the private dried fruit and nuts sector. There is limited research on this topic.

Absence of insurance services

In the current insecurity, the absence of insurance services in Afghanistan is particularly problematic. Exporters and transporters require insurance to cover products as well as vehicles.

Absence of quality standards and certification

In the absence of official quality standard certification by the Government of Afghanistan, which would verify the quality of their product, the Afghan traders are not able to reach the end consumer without a middleman who benefits from the higher premiums when reaching the end consumer. In India, due to the absence of the quality standard licence, the Afghan traders sell the products to the wholesalers, who obtain the certificate/licence from India's Ministry of Health.

III. CONCLUSIONS AND RECOMMENDATIONS

The driedfruit and nuts sector has demonstrated the potential to expand production of high quality and unique products and expand the export market. From the viewpoint of the fruit and nut exporters, the implementation of a limited number of recommendations would not only provide a better business environment in which to continue to expand production and exports, but also build confidence in the future of Afghanistan.

- 1. Establish greater capacity at industrial parks and clarify procedures required to gain access:** The establishment of greater capacity at dedicated industrial sites with access to power (energy) would allow enterprises to install new equipment applying more modern technologies, and would ensure the necessary minimum hygienic standards.
- 2. Introduce uniform tax mechanisms:** Clarifying taxes on exports and making them consistent with the Presidential decree on tax exemption for the dried fruit and nuts sector would make the business environment more predictable.
- 3. Simplify procedures and make them more transparent:** A reduction in the number of export controls would reduce the cost of exporting. Making the payments required more transparent would create more confidence in the system.
- 4. Develop the technical capacity of the staff:** Expanding opportunities for skills training would allow the enterprises to introduce new technologies.
- 5. Negotiate and implement effective transit trade agreements between Governments of Afghanistan and Pakistan:** This would facilitate the transit of Afghan products through Pakistan into India.
- 6. Foster the development of a business association,** independent from Government, which would serve the needs of the enterprises.

IV. DISCUSSION QUESTIONS

1. What are the main constraints to access to land (e.g. cost, lack of title etc.)? What are the procedures to obtain a clear (enough) title? How do domestic firms experience constraints compared to foreign investors?
2. To what extent has a lack of infrastructure (roads, power, water) been a fundamental constraint?
3. What are the most challenging issues when navigating through administrative procedures? In what areas is the application of regulations and administrative procedures inconsistent and unpredictable?
4. How have transit issues affected business development?
5. What support do enterprises require for: technology transfer, skills development and developing the voice of the industry? What institutions could provide this support? What should be the roles and responsibilities of the public and private sectors?
6. What financial services are most needed by Afghan enterprises? How has the lack of access to insurance limited business expansion and increased costs?

This case study was prepared based on a series of interviews with Mr Haji Hassan, the Head of the Kabul Fruit and Nuts Consortia and Director of Angaza Limited.

¹ Official dried fruit and nuts exports increased 23 percent between 1999 and 2003 to US\$ 41.7 m, driven mainly by growth in almonds and pistachios. Source: OTF Group (2005) Dried Fruit and Nuts Cluster Situation Analysis

² OTF Group (2006) Strategy and Action Plan for Afghanistan's Dried Fruit and Nuts Cluster

³ Source ICARDA: The Rich Potential of Horticulture. International Center for Agriculture Research in the Dry Areas. Accessible on

<http://www.icarda.org/Afghanistan/Rich.htm>

⁴ OTF Group (2006) Strategy and Action Plan for Afghanistan's Dried Fruit and Nuts Cluster

⁵ Presented at RALF Symposium accessible on <http://www.icarda.org/RALFweb/SSLPWF/RalfPresentations/2006/2nd%20RALF%20Workshop/5.ppt#2>

⁶ OTF Group (2006) Strategy and Action Plan for Afghanistan's Dried Fruit and Nuts Cluster

⁷ The five members currently operational are: Angaza Ltd, Sabet Saqib Trading Co. Ltd, Mojtaba Sajjad Refat Co. Ltd, Biratharan Nasri Ltd and Yasin Nasir Ltd. Two are non-operational: Haji Nader Ltd and Yasin Nasir Ltd.

The Kabul Dried Fruit and Nuts Consortia was established with the support of the OTF Group. See

www.kabuliwala.com