

**Private  
Sector  
Agribusiness  
Support**



**AGRICULTURAL SECTOR SUPPORT PROJECT  
PRIVATE SECTOR AGRIBUSINESS**

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Prepared by Roger Poulin for Development Alternatives, Inc., for the office  
of the USAID Representative to Afghanistan under Contract Number 306-0204-C-00-9829-00.

Peshawar, Pakistan

September 1990



Development Alternatives, Inc.,  
4 A-C Park Avenue, University Town, Peshawar, Pakistan.

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**PREPARED BY  
ROGER POULIN  
FOR  
DEVELOPMENT ALTERNATIVES, INC.  
AND THE  
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## TABLE OF CONTENTS

PREFACE.....	i
I. INTRODUCTION.....	1
II. PROJECT ACTIVITIES.....	4
A. Trade Facilitation Activities.....	5
1. Brokerage.....	5
2. Trade Promotion.....	5
B. Trade Incentives for Input with Existing Markets.....	5
1. Transportation Rebates.....	6
2. Credit Guarantees.....	7
3. Interventions Related to Policy and Regulatory Constraints.....	8
C. Market Development.....	10
1. Strategy.....	10
2. Implementation.....	12
D. Commercialization.....	13
III. GOVERNMENT OF PAKISTAN POLICY CONSTRAINTS.....	14
IV. NEED FOR ADDITIONAL STAFF CAPACITY.....	15
V. IMPLEMENTATION PLAN.....	17
VI. PSA 3-YEAR IMPLEMENTATION PLAN.....	18
VII. SCOPE OF WORK.....	22

## PREFACE

The following report was written by Mr. Roger Poulin as part of a series of studies leading to development of strategies for private sector agribusiness development in Afghanistan. The recommendations found here are presented as options for modifying the PSA component of ASSP/PSA, broadening its scope, range of operational modes and general usefulness to the private sector. The determination of which recommendations to implement is subject to discussion and review within ASSP/PSA and with O/AID/Rep.

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## PRIVATE SECTOR AGRIBUSINESS SUPPORT

### I. INTRODUCTION

The objectives of the Private Sector Agribusiness Support (PSA) component are to increase the role of the private sector in:

- 1) the supply of agricultural inputs to Afghan farmers;
- 2) the introduction of new agricultural technologies to Afghan farmers; and
- 3) the increased export of agricultural products from Afghanistan.

The underlying premise, especially in view of the lack of government services in Afghanistan, is that the private sector has an important role to play in the market-based growth and development of Afghan agriculture.

The private sector is now constrained from supplying agricultural inputs to Afghanistan, primarily because of high transport costs, complex regulatory procedures in Pakistan, and the low purchasing power of Afghan farmers. The project will address these constraints by providing transport rebates, assisting with Pakistani formalities, and increasing the availability (and perhaps lowering the cost) of working capital by providing credit guarantees and improved financial mechanisms<sup>1</sup>. The objective is to lower the trade costs associated with exporting to Afghanistan so that traders can make a profit at prices affordable to Afghan farmers.

Encouraging the private sector to develop new markets for agricultural inputs will be achieved by:

- 1) providing incentives to traders for a short period (one or two years) which will raise the return on their effort, lower the price to the farmers, and encourage marketing efforts;
- 2) reimbursing some of the costs of promoting new products; and
- 3) encouraging traders to deal in not commonly traded commodities by reducing the risks of innovation, perhaps by agreeing to reduce effective costs.

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<sup>1</sup>. See the report FINANCING CROSS-BORDER TRADE: Reconstructing Agriculture and Agribusiness in Afghanistan by Cary W. Raditz, Financial Advisor ASSP/PSA, September 1990

The objective is to shift the responsibility for developing markets for new inputs from public sector extension services to the private sector. This will help ensure that new inputs are introduced in response to market forces rather than agronomic research and will, therefore, be more sustainable at the farm level.

The final element in the PSA strategy is to use agribusinesses for turnkey initiatives to increase agricultural exports from Afghanistan. Businesses with knowledge and experience in products that Afghanistan can export will receive project support in extending new technologies to farmers. These same businesses will also receive project support in developing export markets abroad. The project will build on agribusiness' motivation to expand their access to products from which they will directly benefit.

It is not possible to precisely predict project impact, but a conservative projection would estimate that by the end of project date (December, 1992) the private sector will be exporting, on an annual basis, 20-30,000 MT of fertilizers, 500 - 1,000 threshers, and considerable quantities of other machinery and spare parts. Under current transportation conditions, the increased exports brought about by the project will decline somewhat when transportation rebates and other project incentives are terminated. However, the exports are expected to stabilize at a level much higher than would have existed in the project's absence. Under assumptions of routes cleared of civil and military strife and mines, obviously the project's initiatives will be followed by a growing trade in commodities guided by PSA-pioneered commercial links.

The private sector will also have introduced new technologies to Afghan farmers. In addition, a model may have been developed for public sector research, extension services, and the private sector to work together to bring about sustained growth and development in Afghan agriculture.

### **Increasing Exports of Agricultural Inputs to Afghanistan**

PSA has two programs to increase the exports of agricultural inputs to Afghanistan:

- o **trade facilitating activities** to reduce trading costs and remove constraints to increased exports of inputs for which there is an existing demand in Afghanistan, and
- o **market development activities** to create new markets for agricultural inputs in Afghanistan.

These two programs have distinctly different objectives and should be kept separate for management purposes.

### **1. Trade Facilitating Activities**

The objectives of PSA trade facilitating activities is to increase the export of agricultural inputs to Afghanistan in response to existing market forces. As noted in Tariq Husain's report<sup>2</sup>, the private sector will export agricultural inputs to Afghanistan as long as the difference between the purchase price in Pakistan and the sale price in Afghanistan is higher than the trading costs. Therefore, the focus of PSA trade facilitating activities should be on reducing trading costs for the various inputs, without resorting to market distorting subsidies.

The project has a program in place for achieving this objective. It consists of: 1) rebates to compensate for high transport costs, 2) assistance in dealing with taxes and regulations, and 3) facilitating access to formal credit through a project-funded guarantee facility.

The measure of success is the increased export of inputs to Afghanistan at unsubsidized prices. If incentives are involved the activity should be considered market development rather than trade facilitation. The project needs to know specifically what is the measurable outcome of its trade facilitation activities. This requires having indicative baseline data on the level of trade in inputs prior to the start of project interventions and a way of measuring the increased trade resulting from those interventions. This should be made part of the project's management information system.

### **2. Market Development Activities**

The limitation of trade facilitating activities is that farmers will frequently not be willing to purchase the input at their full delivered price. When this occurs, the project must make a decision regarding whether or not to undertake a market development effort. If the project knows that the input is profitable to the farmer at the full delivered price, a case can be made to sell the input below cost during a specified introductory period. Also, as new technologies are developed they are not likely to be purchased by farmers at full delivered cost until their effectiveness has been demonstrated. For these reasons, the PSA component will have to carry out market development as well as trade facilitating activities.

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<sup>2</sup>. Loosely Connected Notes with a Useful Attachment, DRMS, Islamabad, August, 1990

For the private sector, market development implies incurring losses during an introductory period to create a market for products that later become profitable enough to justify the initial investment. The term should have the same meaning for ASSP. The project has a policy of not providing subsidies that distort markets which can result in introduction of inputs not economically sustainable at the farm level. This means that using project funds to supply inputs to farmers at below full delivered cost adjusted for wartime conditions should be justified only in the context of a market development effort.

Market development expenditures are a valid, and perhaps essential, element of the PSA component. At present, the major market development effort is the sale of fertilizers to traders through auctions at prices that are lower than the cost to the project, and provision of transport rebates on threshers. In the future, the project will seek a mechanism to encourage traders to undertake market development expenditures; one technique would be to take inputs on consignment.

The measure of success of PSA market development activities will be the quantity of agricultural inputs that initially require market development support and later continue to be exported to Afghanistan with only trade facilitating support. Progress in achieving this objective will be difficult to measure because the process will almost certainly require more than the remaining two years to EOP. The primary indicator of project success will be sustained increases in non-project private sector exports of agricultural inputs to Afghanistan as a result of project interventions.

## **II. PROJECT ACTIVITIES**

PSA activities are divided into three categories, each related to the three basic objectives of this component:

- o activities to facilitate the export of inputs for which a market already exists in Afghanistan;
- o market development activities to introduce new inputs that have not previously been provided to Afghan farmers through commercial channels; and
- o support for integrated agribusiness initiatives to increase production of export crops and expand export markets.

The Peshawar and Quetta trade centers, with their attached depots and offices in Afghan bazaars, will form the base of operations for all PSA activities. The trade centers will include offices and showrooms, and their staff will be responsible for implementing the PSA trade facilitation and market development activities described below. The staff at

bazaar offices (currently two per office in five major bazaars) will provide market information to the trade centers, publicize the PSA services available to merchants in the bazaars, and implement PSA programs in Afghanistan. PSA will establish offices in additional bazaars in 1991 and the number of representatives per bazaar is being increased.

## **A. Trade Facilitation Activities**

### **1. Brokerage**

The objective of brokerage activities is to provide Afghan traders increased access to agricultural inputs available in Pakistan by helping to ease various bottlenecks obstructing the flow of goods from Pakistan to Afghanistan. The most important of these is the formalities required for moving goods through the Tribal Areas. The project will assist traders in obtaining the necessary permits. In addition, space in the PSA depots located at the border will be made available to Pakistani vendors to store goods destined for sale in Afghanistan. This will enable individual Afghan traders to bypass Pakistani formalities. A further service will put the increasing number of small Afghan traders, with little or no previous experience in Pakistan, in contact with reliable Pakistani suppliers.

### **2. Trade Promotion**

PSA trade promotion activities will consist of annual or semi-annual trade fairs and support for a possible Pakistani-Afghan Agricultural Trade Association. Initially, the fairs will provide publicity for agricultural inputs available in Pakistan and explain their benefits to Afghan farmers. Later fairs might concentrate on the promotion of Afghan agricultural exports. The first fair will be held in October and November 1990.

The purpose of the trade association will be to continue PSA trade facilitation activities after the end of the project, including operation of the two PSA trade centers. The first step will determine whether or not there is sufficient interest in establishing such an association. If so, the next step will identify and resolve the various legal and bureaucratic issues involved, and determine the level and type of PSA support needed to establish the trade association.

## **B. Trade Incentives for Inputs with Existing Markets**

The purpose of these incentives is to help compensate for the high trade costs associated with exporting agricultural inputs into Afghanistan. These high costs are due primarily to war conditions in Afghanistan, especially deteriorated roads, security problems, and the need to carry out trade activities

mostly through unofficial channels. Costs are also increased by the various taxes and regulatory procedures imposed by the GOP, local authorities in Pakistan, and the local authorities in Afghanistan. Finally, many agricultural inputs require special storage and handling (e.g., fertilizers and seeds) and have relatively high working capital requirements due to the long lead time between initial purchase and final sale to farmers.

The project will provide two types of incentives to alleviate these constraints: transportation rebates and credit guarantees.

### **1. Transportation Rebates**

Transportation rebates are currently the project's primary financial incentive for traders to export agricultural inputs into Afghanistan. These rebates have two purposes:

- 1) overcome the high transportation costs caused by the war; and
- 2) encourage the movement of goods to bazaars located in areas identified by the project as having high agricultural potential.

ASSP provides rebates to traders that reduce their costs of exporting agricultural inputs to Afghanistan but does not provide "subsidies". The rationale for the rebates is that transport costs in Afghanistan are exceptionally high due to the war conditions. This is a legitimate market development expense.

As a part of the PSA trade facilitation program rebates should be limited to compensating traders only for the additional trading costs due to the war. The size of the rebates would increase in proportion to the distance, road damage and political instability of the destination. To utilize rebates in this way the project needs information on the purchase price of the input in Pakistan, the costs associated with exporting the product to the intended destinations in Afghanistan, and the sale price of the product at those destinations. This data should be gathered prior to setting rebates for each product and should be made part of the project's management information system. Under this approach, the size of the rebates would be set by the project based on an analysis of trading costs<sup>3</sup>, rather than through auctions that have the effect of lumping market development costs in with rebates.

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<sup>3</sup>. An alternative indicator might be a comparison of costs per ton/kilometer in Afghanistan with the same in Pakistan.

During 1990, PSA provided transportation rebates for 14,000 MT of fertilizers, 149 threshers, 251 water pumps and 109 tractors. These are the products currently being exported to Afghanistan with PSA support. As new inputs are introduced under the market development activity described below, these inputs may qualify for transportation rebates.

The size of the rebate will be set by PSA based on estimates of the added trade costs attributable to the effects of the war. In 1990, the rebate for DAP and agricultural machinery was set at 100 percent of transport costs from Peshawar or Quetta to the designated bazaar. PSA bazaar representatives will monitor the sale price of these products, and rebate amounts will be adjusted regularly with an eye toward phasing them out. Rebates will be reduced as conditions stabilize and transportation costs decline.

## 2. Credit Guarantees

Unlike rebates, which have been provided by PSA since the outset and were, in fact, initiated in 1988 under earlier phases of the ASSP, the credit guarantee program is just beginning. Project experience and recent studies have shown that virtually all Pakistani-Afghan commercial trade is either self-financed or financed through the informal sector. Traders have consistently indicated that lack of access to formal sector credit is not a constraint to the increased export of agricultural inputs. There are indications, however, that as traders move into new products and greatly increase the volume of products already being traded (largely in response to PSA initiatives), credit could become a constraint. This will be due to the quantities involved and the long procurement lead times needed for many products, especially imports from abroad. PSA expects that many of the products initially purchased by the project directly will later be financed with the help of credit guarantee mechanisms. Fertilizer is the prime example, but certain types of agricultural equipment could also require large amounts of working capital. Eventually, formal sector credit institutions could become a routine and important source of working capital for Pakistani-Afghan trade, both import and export.

Initiating a credit guarantee program will require the following actions over the next few months. First, PSA, through consultants, will work with one or more commercial banks to establish workable mechanisms<sup>4</sup>. This includes determining the level of funding required from the project, as well as the fees to be charged for guarantees, conditions to be met by traders, the respective responsibilities of the project and the banks, and the legal procedures needed to utilize the guarantee facility.

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<sup>4</sup>. PSA may support the establishment of credit facilities, but will not become involved in direct administration of such a program.

At the same time that this mechanism is being put in place, the project will carry out a detailed study of how existing trade is financed and identify possible obstacles to traders moving from informal to formal sources of credit. These preparatory steps will begin as soon as possible and a credit guarantee facility is expected to be in place and operational by late 1990.

### **3. Interventions Related to Policy and Regulatory Constraints**

The policy and regulatory constraints restricting the flow of agricultural inputs into Afghanistan fall into two categories. The first relates to goods that are imported from abroad for sale in Afghanistan. At present, it appears that the only way for these goods to transit Pakistan duty free is if they are imported under the trade agreement between Pakistan and the Kabul government. This requires that they be imported officially into Afghanistan by a trader or entity located in either Kabul or another urban area controlled by the Kabul government. For products destined directly for mujahideen controlled areas, the solution has been to import them under U.S. Government auspices and sell them to private traders for export to Afghanistan.

In order for the project and the U.S. Government to extricate themselves from the import business, a way must be found for the private sector to avoid GOP customs duties and other GOP and local taxes for goods destined for Afghanistan. For the project, the immediate concern is the importation of fertilizers that must be ordered this fall in order to arrive in time for the 1991 agricultural season.

This urgent but complex problem requires careful study and quick action. The project will utilize consultants to determine if there are ways for the private sector to import goods through Pakistan for sale in Afghanistan without going through Kabul. If not, the consultants will identify other solutions that are feasible within the time frame of this project.

A second set of constraints relates to goods that are imported into or manufactured in Pakistan and available on the local market. Imported goods are subject to all of the Pakistani customs duties and other taxes. Locally manufactured goods are frequently subsidized either directly or indirectly through subsidies on raw materials and intermediate goods. The export of these goods is closely controlled by the GOP. Also, there are goods in Pakistan, considered essential by the GOP, that cannot be exported without permission. In addition to these restrictions at the national level, there are a number of local taxes and permits needed to sell and transport goods from one region of Pakistan to another. These are supplemented by special permits needed to move goods to and through the Tribal Areas.

The final result is that the export of agricultural inputs to Afghanistan by the private sector can be extremely time consuming, prohibitively expensive, or even impossible. Project intervention in the trade process in the context of the U.S. humanitarian assistance program for Afghanistan can frequently, but not always, expedite the process.

The first step in addressing this set of constraints will be to carry out a study of all policies affecting agricultural inputs likely to be exported to Afghanistan under this project. These include import restrictions and duties, export restrictions, domestic subsidies, restrictions on the movement of goods in the Tribal Areas, and any politically motivated restrictions related specifically to trade with Afghanistan. The study will identify those actions the project or USAID need to undertake in order to change or bypass these policies and regulations.

Since many of the issues to be addressed in this study stem from basic GOP economic policies as they affect the Pakistani private sector, the study will be carried out in close coordination with the Private Sector Office of USAID/Pakistan. Considerable research has already been carried out on these issues by USAID and other donors. The PSA study will build on this prior research and focus on issues that directly affect private sector exports of agricultural inputs to Afghanistan.

This study will be performed within the next six months and its findings incorporated into the 1991 PSA work plan. However, project initiatives to move inputs into Afghanistan will not await the study's findings. PSA will proceed with the full range of initiatives to move inputs into Afghanistan as expeditiously as possible. In fact, experience gained from these initiatives will help identify specific issues to be addressed by the study and perhaps provide insights that will contribute to study recommendations.

## C. Market Development

### 1. Strategy

Market development is defined as selling products at below delivery cost during an introductory period to create a market that is expected to become profitable enough to justify the original investment. Such expenditures should be based on market research and should have clearly stated objectives and a specified time frame. The final sale price to the farmer is a major determinant of the success of a market development effort. The lower the sales price, the higher the farm-level demand for the product being introduced. By using the auction approach, the project loses control over the final sales price and therefore over the pace at which the new product is likely to be accepted. For this reason, other mechanisms must be explored.

The objective of this set of PSA activities is to introduce new agricultural inputs to Afghan farmers through private sector market development. This will be achieved primarily by providing incentives to private traders to test new products in the Afghan market. The testing will be done on a pilot basis and will entail some risk. This risk will be shared by the project and the traders who may profit from the newly created markets. PSA expects that, by the end of the project's three year period, new types of equipment, agricultural chemicals, soil additives, and miscellaneous items such as mill stones and veterinary medicines will be moving commercially into Afghanistan without subsidies or other incentives. Perhaps more importantly, the project will demonstrate that the private sector can disseminate certain new technologies as effectively as agricultural extension services, and with more sustainability since innovations will be marketed based on farm-level profitability rather than solely agronomic rationales.

In addition to the transportation rebates and credit guarantees previously mentioned, the specific incentives provided by the project for market development are the following:

- o Direct Procurement. The purpose of PSA direct procurement activities is to expedite the supply of agricultural inputs to traders exporting them to Afghanistan. Most of these products have not been exported from Pakistan to Afghanistan by the private sector in recent years. Consequently, traders have been reluctant to initiate the procurement process with their own funds, especially for products that have a long lead time between initial purchase and final sale. Experience indicates that direct purchases by the project are often a critical first step to increasing exports for agricultural inputs not presently being exported to Afghanistan by the private sector.

PSA will locate the supplier, negotiate the purchase, and make whatever advance payment is required at the time the order is placed. Once the goods are ready for delivery to traders, either in Karachi or at the Pakistani factory, they are sold to Afghan traders either through a bidding process or at a negotiated price. In most cases, the only outlay by the project is the initial advance to the supplier. Traders pay the balance when they purchase the goods or the forward contract from PSA. As part of direct purchasing activity, PSA will identify and carry out the actions required to transfer this function to the private sector.

- o **Incentives**<sup>5</sup>. The purpose of incentives is to provide the product to traders at a price that will induce them to export it to Afghanistan. The project takes the first risk by purchasing the product. The trader takes the second risk by agreeing to pay a certain price for the product and then trying to sell it in Afghanistan. The price may be below the project's cost initially. If the price at which the trader sells the product in Afghanistan is below his delivered cost, he incurs a loss. If the pilot activity is successful, incentives are removed and the product enters commercial channels. If the activity is unsuccessful, it is terminated.
- o **Reimbursement of promotion costs**. For some products, the trader must hire staff to promote it in bazaars and at the farm level. The project and the Pakistani supplier will train these individuals and provide them with marketing materials. The project will explore other options to draw traders into dealing in new products.
- o **Guarantees to reduce risk**. For some products, the project will assume part of the risk of their not being sold. This can be done by either providing the goods to the trader on consignment or agreeing to repurchase the product at a pre-determined price. The repurchase price will be set at a price below the trader's cost to ensure an incentive for the trader to undertake a reasonable marketing effort.

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<sup>5</sup>. The project does not provide subsidies (defined as price reductions that cause market distortions). These result in farmers making decisions not based on market forces and therefore do not have a sustainable effect. Incentives provided to traders are intended to level a distorted, war time cost structure and create an approximation of the normal conditions anticipated and hoped for in the near future.

## 2. Implementation

The steps for each market development initiative are the following:

1. PSA and the Agricultural Development and Training (ADT) component will select products for project support. ADT will identify products likely to be economically feasible at the farm level based on information obtained from the ADT demonstration centers and quick surveys of area farmers. PSA will obtain market information from the bazaar representatives and technical information from sources in Pakistan.
2. PSA will assess trader interest. Once products have been selected, PSA will contact traders to identify possible constraints to their commercial export and to determine the necessary incentive package.
3. PSA will then negotiate agreements with interested traders. These agreements will cover: credit guarantees, transportation rebates, reimbursement of promotion costs, training, and trader responsibilities in exchange for these incentives.
4. PSA will monitor the implementation of these pilot efforts to assess trader performance and identify necessary revisions, including possible termination of the effort.
5. The final step will be to discontinue the market development incentives for successful efforts and move the products into the category of goods with established markets. These products will continue to qualify for transportation rebates and credit guarantees as discussed in the previous section.

PSA will undertake three market development initiatives during the 1991 agricultural season:

- o **Seeds:** Few seeds have been sold commercially in Afghanistan and traders are skeptical that farmers will be willing to buy improved seeds without a substantial subsidy. The main reasons are: 1) improved seeds have traditionally been provided free through agricultural extension services and are now being provided free in many areas by NGOs; and 2) farmers are generally unwilling to abandon their traditional seeds until they know from direct experience that the "improved" seeds will, in fact, increase their yields. PSA has purchased 500 MT of wheat seed for commercial distribution in 1990, and will purchase at least the same amount for 1991. The sale of these seeds to traders is

scheduled to start in September 1990. These small pilot efforts will provide the project with concrete information regarding the market for wheat seed in Afghanistan.

- o **Farm machinery:** There is a known demand for tractors, threshers, and certain types of plows in Afghanistan. However, current trade in these items is at a very low level. PSA and ADT will identify equipment needed in Afghanistan for which there is likely to be a demand once their use is demonstrated. PSA and ADT will then provide support and incentives to traders to begin exporting these products. Since much of this equipment is expensive for both traders and farmers, credit or credit guarantees are likely to be an important part of the incentive package. An important element of this program will be ensuring that the traders involved have the capacity to establish dealerships, and provide spare parts and post-sale maintenance and repair services. PSA expects that arrangements for this initiative will be completed in late 1990.
  
- o **Agricultural chemicals:** Agricultural experts agree that chemicals (pesticides, herbicides, sulphur, etc.) are among the most needed and potentially useful inputs that can be provided to Afghan farmers. These are not now moving into Afghanistan in large quantities. ADT will identify the most urgently needed chemicals, locate suppliers and qualified traders to export these products, and arrange for training and other incentives as necessary. The project will ensure that the chemicals selected are on USAID's approved list.

#### **D. Commercialization**

This set of PSA initiatives aims at increasing Afghanistan's agricultural exports by supporting agribusinesses interested in introducing new production technologies for export crops and developing new or expanded export markets. This type of intervention would be appropriate for products such as dried apricots, grapes, raisins, and almonds.

There is a substantial, unmet demand for properly grown dried apricots. This is one of the most profitable crops that Afghan farmers at the right elevation can grow. The project is initiating activities to increase production and improve product quality. The PSA staff will identify two or more Afghan businessmen already working with the export of dried fruit. They will be shown improved drying techniques and assisted in assessing potential demand in Europe and elsewhere. This market assessment exercise will probably involve travel to Europe and the Gulf countries.

Simultaneous with assessing market demand, these businessmen will be asked to recruit crop extension and marketing agents for training in all aspects of apricot growing, drying, processing and packaging. Training will be partly or entirely at project expense. These agents will be used to extend the new technology to Afghan farmers.

The end result will be increased production capacity in Afghanistan for an improved product, and an expanded export market for that product. Experience with this first initiative should assist similar PSA activities for other crops.

### III. GOVERNMENT OF PAKISTAN POLICY CONSTRAINTS

At present the main source of information on policy constraints to increased trade is the project's own experience. The Nathan/Berger study of cross border trade has a brief and somewhat superficial chapter on government regulations and controls but does not include an in-depth policy analysis. Tariq Husain's initial inquiries and observations are useful and relevant to ASSP needs. For example, he explains the reasons for the policies and addresses the implications for the project.

The next step should be a comprehensive study of the Pakistani policy framework as it affects cross border trade with Afghanistan. This study should cover the following areas:

- o **Transit Trade:** The project needs to know not only what the policies are but how they are applied in practice. Not surprisingly, the private sector gave conflicting explanations during the Husain/Poulin consultancies. Knowing how to deal with the transit trade issue through the private sector is critical.
- o **The foreign exchange regime:** Foreign exchange becomes an issue whenever the Pakistani rupee is substantially overvalued. This is not the case at the present time, but it is important to know the conditions under which foreign exchange controls are likely to be imposed and what are the implications for the project.
- o **Export control:** These are related to two Pakistani concerns: 1) the Pakistani Government does not want goods that it is subsidizing to be exported, and 2) basic goods that are considered in short supply are usually not allowed to be exported. Most agricultural inputs are currently allowed to be exported from Pakistan to Afghanistan, but it is important for the project to know the conditions under which a ban might be reimposed.

- o **Local taxes and regulations:** The project has considerable direct experience with taxes, regulations, and controls imposed by local authorities. Again what is lacking is an understanding of the history and objectives of these policies in order to determine which ones can be changed and how the project should go about it. The project also needs a better understanding of the impact of these policies on trader decisions and trade flows. Denny Freed suggested that the cost of local taxes and controls exceeds direct transport costs.

The Nathan/Berger team might be asked to carry out a study of the above issues during the next phase of its contract with A.I.D. DRMS would also have a comparative advantage in this type of work.

#### IV. NEED FOR ADDITIONAL STAFF CAPACITY

##### The Need for a Production Economic Capacity in ASSP

A basic marketing tenet is that market development undertaken without adequate market research rarely succeeds. For agricultural inputs, market research involves knowing the costs and benefits of the inputs at the farm level.

This argues for a production economics capacity within ASSP as recommended by Tariq Husain. What ASSP needs to know before undertaking a major market development program is:

- 1) some indication of the cropping patterns in the regions being served by the project,
- 2) the farming systems (actual and improved) for these crops, including input requirements,
- 3) the production response of the inputs on the various crops,
- 4) the economics of input use at the farm level under prevailing prices, and
- 5) the likely size of the market after the market development phase has been completed.

A production economist working with the Agricultural Development and Training component can provide PSA with the information it needs to decide which inputs to promote. PSA can then design the marketing strategy in conjunction with suppliers and traders. The detailed scope of work for a production economist can be prepared by Tariq Husain of DRMS expanding on the proposal in his report.

It is unfortunate that time is running out under this project and there is tremendous pressure to begin market development activities without the necessary market research. There is a strong likelihood that these activities will have a high failure rate that would be catastrophic for most private sector firms.

### The Need for Private Sector Marketing Expertise

There are two areas where strong private sector marketing expertise is needed. The first is in the development of markets for agricultural inputs. The Production Economic Units and ADT can select the products to be promoted, but PSA will have to formulate the marketing strategy in conjunction with suppliers and traders. This involves selecting appropriate suppliers, deciding how best to reach the markets, identifying critical constraints in the marketing chain, and designing an incentive package that will provide adequate but not excessive inducement to the private sector. This is not an area in which the project has strong expertise at this time. It should be noted that, except for fertilizers, trade volume for agricultural inputs is small relative to the traditional goods moving across the Afghan-Pakistan border, notably food products and contraband manufactured goods transitting through Afghanistan to Pakistan. Agricultural inputs, therefore, may not be of priority interest to most traders, especially if the input requires special handling or post-sale servicing.

A more important need for private sector trading expertise relates to increasing Afghan agricultural exports. In volume terms, this is potentially a much larger scale effort than the marketing of agricultural inputs. Considerable research and analysis is needed for each of the major commodities likely to be exported to Pakistan and other countries. To maximize project impact, this work should be coordinated by a firm with expertise in international trade. The involvement of firms with commodity-specific expertise will also be needed. The possibilities for productive initiatives in this area greatly exceeds what the project will be able to carry out during the next two years. This seems to be an activity that could be accomplished under the GIC subcontract for ASSP/PSA. It is also an area in which HVH can play a major role, particularly given the high priority that fruit exports will play in Afghanistan's reconstruction.

V. IMPLEMENTATION PLAN

The actions PSA will undertake during the next 12 months are listed below and scheduled as shown on the attached chart. Those actions most critical for the timely implementation of 1990 initiatives are designated with an asterisk.

ACKU

V. PSA 3-YEAR IMPLEMENTATION PLAN

	1990				1991				1992	
	1	2	3	4	1	2	3	4	1	2
<b>A. Operations</b>										
<b>B. Trade Facilitation</b>										
<b>1. Brokerage</b>										
a. Trade Centers										
b. Depots		(1)		(2)						
<b>2. Trade Promotion</b>										
a. Trade Fairs				(1)		(3)				
b. Trade Association					(1)			-----	(4)-----	
<b>3. Assist. W. Document.</b>										
<b>C. Trade Incentives</b>										
<b>1. Fertilizers</b>										
a. Procurement	(1)	(2)	(5)	(7)				(9)		
b. Cred./Cred. Guar.		(4)	(8)							
c. Transport Rebates			---(3)---			---(8)---		---(10)---		
<b>2. Threshers</b>										
a. Transport Rebates					---(1)---			---(3)---		
b. Credit Guar. (?)					(2)					
<b>3. Tractors</b>										
a. Procurement								(4)		
b. Cred./Cred. Guar.					(1)	(2)		(5)		
c. Transport Rebates						(3)				
<b>4. Others</b>										
<b>D. Market Development</b>										
<b>1. Seeds and Seedings</b>										
a. Direct Procurement	(1)			(2)						
b. Cred./Cred. Guar.										
c. Incentives				(3)						
d. Promotion Costs										
e. Transport Rebates										
f. Training								---(4)---		
<b>2. Farm Machinery</b>										
a. Procurement					(1)	(2)	(5)	(9)		
b. Cred./Cred. Guar							(7)	(10)		
c. Incentives						(3)				
d. Promotion Costs						(4)				
e. Transport Rebates						(5)				
f. Training							(8)		---(11)---	

PRA 3-YEAR IMPLEMENTATION PLAN (CONTINUED)

	1990				1991				1992	
	1	2	3	4	1	2	3	4	1	2
<b>3. Chemicals</b>										
a. Dir. Procurement				(1,2,3)						
b. Cred./Cred. Guar.				(4)						
c. Incentives				(5)						
d. Promotion Costs				(6)						
e. Transport Rebates				(7)						
f. Training				(8)						
<b>4. Others</b>										
<b>E. Commercialization</b>										
<b>1. Dried Apricots</b>										
a. Locate Agribusiness					(1)					
b. Negotiate Agreement					(2)					
c. Sign Contract					(3)					
<b>2. Others</b>										
<b>F. Policy Constraints (Consultancies)</b>										

Action	Responsibility
<b><u>Brokerage</u></b>	
1. Open first depot 2. Open second depot	PSA PSA
<b><u>Trade Promotion</u></b>	
1. First trade fair 2. Explore interest in agricultural trade assn. 3. Second trade fair 4. Ongoing support for trade association	PSA PSA PSA PSA
<b><u>Trade Incentives Program</u></b>	
<b><u>Fertilizers</u></b>	
1. Procurement for July 1990 delivery 2. Arrival in Peshawar and Quetta 3. Payment of transport rebate *4. Set up credit guarantee mechanism for private sector imports	PSA PSA PSA ASSP/PSA/consultant/bank
*5. Procurement for 1991 delivery private sector 6. Provide credit guarantees 7. Arrival of fertilizer for spring delivery private sector 8. Transport rebates for spring delivery 9. Arrival for fall delivery private sector 10. Transport rebates	PSA/bank  PSA PSA
<b><u>Threshers</u></b>	
1. Rebates for 1990 2. Explore need & interest in credit guarantees 3. Rebates for 1991	PSA PSA PSA
<b><u>Tractors and Selected Equipment</u></b>	
*1. Contract to set up credit guarantee mechanism for products purchased in Pakistan *2. Set up mechanism 3. Assess need for rebates as incentive *4. Purchase tractors private sector 5. Provide credit guarantees	PSA/consultant ASSP/PSA/consultant/bank PSA PSA/bank

Introduction of New Inputs	
<b>Seeds</b>	
1. Purchase seeds for 1990 delivery	PSA
2. Delivery of seeds to PSA	PSA
3. Provide incentives to private sector	PSA
4. Provide transport rebate to private sector	PSA
*5. Purchase seeds for 1991 delivery	PSA
<b>Farm Machinery</b>	
*1. Select equipment to be introduced	PSA/ADT
*2. Survey traders to assess interest and determine incentive requirements	PSA
*3. Negotiate incentives	PSA
*4. Negotiate reimbursement of promotion costs	PSA
*5. Negotiate transportation rebates	PSA
*6. Order equipment	ASSP/PSA or priv. sector
7. Provide credit guarantees	PSA
8. Arrange for and provide training	PSA/priv. sector
9. Delivery of equipment to traders	PSA or priv. sector
10. Guarantee lease agreement between Pak. leasing company and Afghan traders	PSA
11. Provide transportation rebates	PSA
<b>Chemicals</b>	
1. Select chemicals	ADT
2. Obtain AID approval	ASSP
3. Purchase chemicals	PSA/ASSP
4. Credit guarantee if necessary	PSA
5. Negotiate and provide incentives	PSA
6. Negotiate reimbursement of promotion costs	PSA
7. Negotiate and provide rebates	PSA
8. Provide training	PSA/priv. sector
<b>Commercialization</b>	
*1. Identify agribusiness	PSA/consultant
*2. Negotiate agreement	ASSP/PSA/consultant/agribusiness
*3. Sign contract	ASSP/agribusiness

## SCOPE OF WORK

POSITION: ECONOMICS ADVISOR

COMPONENT: PROGRAMMING, PLANNING AND ANALYSIS COMPONENT

CANDIDATE: ROGER POULIN

DURATION: 2 WEEKS

The Private Sector Agribusiness Component of the Afghanistan Agricultural Sector Support Project defines its role in terms of trade expansion with special emphasis on the creation of mechanisms to facilitate trade in agricultural commodities. Direct commodity purchases for resale to Afghan traders have been utilized by the project to provide needed fertilizer, seeds and PL-480 wheat during the initial project stages in order to assist in the resettlement of the returning refugee population. Such direct intervention in the market is a temporary measure.

Achievement of PSA's goals will occur through creation of private sector initiatives, with open entry for current and potential entrepreneurs. Growth in the private sector in Afghanistan is also dependant on the establishment of trade linkages with Pakistan and accommodation to its policies, procedures and laws. In order better to define its strategy and specific actions in assisting in trade development, PSA will utilize the services of an economist, experienced both in private sector operations and AID programming for private sector development. He will collaborate with a Marketing and Trade Advisor with complementary skills to help guide the project into effective interventions in the private, international trade.

The Economics Advisor will advise the PSA and PPA components in the fields of economic policy and trade development. He will report directly to the Chief of Party or his designee.

Specific tasks will include:

1. Define the broad policy framework and trade structure within which ASSP must operate, specifying the Pakistani policies, laws, regulations and agreements on trade, finance, prices and transport which must be changed or factored in as limitations on trade. Special attention should be given to agreements which could be coordinated by O/AID/Rep with USAID/Pakistan in fulfillment of mutual interests in trade development.
2. Review the structure of commodity and financial markets (domestic Pakistani and international), determining the scope for increased trade of major commodities in the import-export trade.

3. Examine the nature and availability of import/export financing and analyze its impact on trade with special attention to short term foreign exchange requirements. The Advisor will provide DAI and O/AID/Rep with specific recommendations and methods for resolving the import financing problem.
4. Propose special studies required to fill in the knowledge base on trade structures, policies and mechanisms such as trade associations and provide information for definition and implementation of ASSP/PSA action.

The Economics Advisor will hold an M.A. in Economics and have at least 15 years experience in project analysis and design with demonstrable experience in private sector project design and evaluation.

SOW/POULIN.1



