

# Investment Opportunities in Samangan Province: A Feasibility Study

Abdullahel Hadi



This feasibility study report is prepared at the request of the Ministry of Rural Rehabilitation and Development (MRRD) of the Government of Afghanistan. Research Unit of BRAC Afghanistan has carried out this study.

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## Executive Summary

Afghanistan has been devastated by civil wars and droughts that have resulted in the collapse of the economy, destruction of infrastructure and massive displacement of the population. Rebuilding the society and reconstruction of the economy demand massive investment in both the cities and countryside. This study is an attempt to identify the viable investment opportunities in the province of Samangan in the North-central region of Afghanistan.

The report is based on the several sources of information such as market assessment, group meetings with the NGO staff working in Samangan province, discussion with the Governor and senior officials of the province and the review of relevant documents.

The study has identified the most promising sector for income generation as weaving (rag and carpet making, sewing, etc.). The next major sector is farming (including nursery, agriculture, livestock raising and vegetable cultivation). Small trading (such as tailoring, bakery, restaurant, departmental stores, shoe traders, vendors, etc.) and transportation (auto-rickshaw, donkey and horse driven carts) are also viable sectors where investment could be made. The investment opportunities are presented in three broad categories based on the size of the capital and the management of the projects. These are:

1. **Micro-finance program:** Several products and services are identified under this category. These are horticulture nursery (to produce almonds, grapes, melons, apples), kitchen gardening (for tomato, reddish, turnip, carrot), agriculture (wheat and maize cultivation), livestock raising (sheeps and cows), poultry (broiler rearing), small trading (butchery, shoe shining and repairing, carpentry) and home-based sewing and weaving (for rag and carpet making). These products have the income potential with small operational investment.
2. **Small Enterprise Program (SEP):** A number of sectors are identified where investment is expected to result favorably if other conditions improve or remain same. The potential SEP sectors are weaving carpets and rags, fruit processing, transportation, engineering workshop, and retail shops.
3. **Large Financial Institution:** The identified projects under this sector are factories to manufacture kitchen utensils, engineering workshops, milk processing plant and large handicrafts. These products require significant investment on the operational and production sides. Also, such projects need to wait, as several official requirements have to be completed to make these projects fully operational.

Several risk factors are also identified for investment such as inadequate supply of inputs, poor capacity in processing and marketing, absence of commercial transaction (such as banking), limited institutional support from the government and poor transportation system.

The study argues that the risk factors have consistently been reducing in the area as the infrastructure has been built, communication system has been expanded and the power supply has becoming better. The study suggests that the Afghan government and the provincial

authority should take several measures to attract investors in Samangan. These are establishment of secured financial transactions in the area for smooth and prompt transfer of money, development of skilled manpower to effectively run the projects, and promote backward and forward linkages to ensure the routine supply of inputs and marketing the products in Samangan and beyond.

## 1. Introduction

Afghanistan has emerged from over two decades of war and three years of drought. In addition to the continuing civil strife, the country suffers from enormous poverty, a devastated economy with a crumbling infrastructure, irrigation systems and agricultural production (UNDP, 2004). The country has a population of about 26,813,057 within an area of 647,500 sq.km. Samangan is one of the 34 provinces in Afghanistan. The province is covered by mountain with relatively smaller amount of arable land for agriculture or grazing.

It has been widely recognized that the political and economic stability are the two prerequisites for any rebuilding effort. This is also true for the backward and remote province of Samangan. The authority has promised to help the disabled, rebuild the economy, set up a fair legal system and move away from the war towards reconstruction and development. Local clashes in some areas in the province are reported but there are few signs that the warriors have the potential to overthrow the current administration. Like in most other provinces, major reconstruction efforts are under way to rebuild Samangan province under the national solidarity program (NSP) of the government.

The province has been transforming from a trouble zone to a land of stability – a requirement for reconstruction and development. Developing income-generating projects in this province is considered as an opportunity to take advantage of the resources and low cost of labor in the area. The international community has guaranteed continued large-scale support for the country. Such promises of stability and co-operation signal that the environment is ripe for financial institutions and others for forward-looking investments.

The Samangan investment environment, along with the country as a whole, shows systematic improvement particularly in sectors such as carpets and rags, logistics and transportation, and food and fruit processing (World Bank, 2004). Considering all positive and negative factors, this study provides an overview of the investment climate and identifies the viable investment opportunities as well as constraints for the province of Samangan.

## 2. Methodology

### 2.1 Sources of data

The report is based on a combination of field investigation, discussion with key informants and reviewing published documents to understand, identify and prioritize investment opportunities. Information from the following sources are used in this study:

- a. **Market assessment:** The assessment was done by visiting and discussing with the owners of the businesses in selected rural and urban markets. Detailed field interviews were performed in Aybek town (the capital) with representative stakeholders (traders, producers, consumers, etc.).
- b. **Meetings with the NGO staff working in Samangan:** The purpose of the meetings was to understand the local production capacity of the on-going and potential projects.

Technical constraints to begin new projects and problems in marketing were also discussed and identified in those meetings.

- c. Discussion with government officials: An in-depth meeting with the Governor provided the official views of the investment plan in Samangan. This meeting was followed by a detail discussion with two provincial Directors (of Economy and MRRD).
- d. Document review: Available documents found in various offices and on the websites were consulted.

## 2.2 Rationale of conducting this study

Identifying appropriate and new investment opportunities is a difficult task particularly in the Samangan market context where the basic business information does not exist. Feasibility studies permit investors to conceptualize their ideas before implementing them. Bringing a project from the concept to the operational stage is a complex and time-consuming effort. In most cases, ideas do not develop into business operations. While deciding to invest in a proposed project, one must determine if the project can be economically viable and whether the investment advantages outweigh the risks involved. The feasibility study, therefore, considered valuable in developing an investment project in Samangan.

## 2.3 Study limitations

This initiative is not an academic exercise or research project. The findings presented in this report are not based on systematically collected data from the field but on impressions generated during the field visit in early December 2005. Not all markets and economic enterprises in Samangan were visited and consulted during the field visit. It should also be remembered that the outcome of this study is only the compilation of ideas that require further investigations. This report is not a business plan.

# 3. Findings

## 3.1 Profile of the province

Samangan is one of the backward provinces in Afghanistan with a population of about 420,000. Most of them are living below poverty line. Among the five districts, Aybak (also the capital of the province) has relatively well developed infrastructure, motorized roads, government offices, largest market in the province and is better connected with other major trading centers of the country. On the other hand, Hazrat Sultan is the poorest district, largely isolated from the capital and other parts of the country. The area has a coal mine yet to be exploited in the large scale. National Solidarity Program (NSP) of the government has been very active in that district. The main sources of earning in the province are agricultural production and livestock raising. The amount of arable land for agriculture and grazing is very small compared to the size of the province. Thus, landlessness is very high in the province. The literacy rate is low in

Samangan and much lower among women than men. Among different ethnic groups, Uzbeks dominate in population size followed by Tazik and Pushtun. Samangan was relatively less affected by war. Thus, the displacement of population was also less compared to the eastern provinces. Samangan is fortunate to have the electric supply from the neighboring country. The banking facilities are almost non-existent and the financial institutions operating in the province are very small in number and coverage.

### **3.2 Strengths of and the opportunities in Samangan**

#### **Low cost production**

Investment in Samangan should be seen as an excellent opportunity to take advantage of the low cost production compared to other areas. The province has abundant sources of cheap labor supply. The government has emphasizes to develop the infrastructure such as reconstructing the roads in the countryside, expanding the electric power supply in the interior villages and the improvement of the security situations.

#### **International support**

The international community has guaranteed continued large-scale support for the country. The government has shown its commitment to promote the development of Afghanistan's private sector. In all its actions, the local authority and the government have shown a hands-on approach to support businessmen willing to invest in the province.

#### **Transportation and communication**

Major reconstruction efforts are under way to rebuild Samangan province under NSP. The roads and bridges, which are necessary to connect with other large trading centers in the country, are expected to play major role in marketing the products of Samangan. Mobile phone services are now become increasingly available in the area. Air travel, via Mazar-e-sharif, is seen as the most reliable route of transport for the investors coming from Kabul and the overseas.

#### **Political stability and commitment**

Samangan has been transforming from a trouble spot to a land stability and peace that are regarded as basic requirements for investment. Political stability has substantially increased over the last couple of years. The government, particularly the Governor of the province, has shown his commitment to promote economic development of the province and expressed his willingness to assist the investors for their enterprises to grow.

### **3.3 Major constraints to profitability and sustainability**

#### **Traditional system of production and processing**

Most of the producers in Samangan rely on traditional technology with old equipments. While some entrepreneurs appear open to accept new technologies, most of them have little expertise to adopt these in their system. There are some sectors (such as livestock raising, etc.) need to improve their capacity and provide other necessary supports. While the availability of irrigation water is not a problem so far but the problems remain in the distribution of water (International Programs Office, 2003).



### **Problems in agricultural sectors**

It has been reported that the agricultural services, particularly agriculture extension and credit facilities, are either non-existent or very poor (International Programs Office, 2003). Except the support of some NGOs, there are neither farmer cooperatives nor government credits available to farmers. The lack of extension services to teach improved systems of production limits the ability to introduce improved varieties of seeds and modern technology. Although fertilizer and pesticides are available, high prices and the lack of credit prevent their use by most farmers (International Programs Office, 2003). In Samangan, the agricultural practices have remained backward and poor.

### **Enterprise management**

As expected, capacity development also needed in managing enterprises in Samangan. The use of project management and record keeping are not generally practiced in the existing businesses. Thus, it is difficult to estimate input costs, labor allocation, expected yield and marketing price. The investors have no basis for making enterprise mix decisions to increase the output and income.

### **Markets**

The total population in the province is about 420,000 and most of them are very poor with very limited buying capacity. The market size in the Samangan province is, therefore, not very large but comparable to the markets in other poor provinces of Afghanistan. Lack of market alternatives is hindering the ability to capture value. Direct trade relationships exist with Mazar-e-sharif and Kabul. Even domestic processing options (juices, etc.) do not exist in the province. Growers have little market information to make informed decisions. Traders often make decision based on investment recovery rather than opportunity costs. Samangan has no cooperatives or marketing associations to regulate market prices and supplies. Except few NGOs, there is no cooperatives or government credits available to them.

### **Financial constraints**

The provincial authority in Samangan has no control over financial institutions. They do not have information about the economic activities in the provinces. No bank exists to run commercial transactions. No commercial credit is available in the market. Thus, the producers lack the resources to invest or to expand their businesses. The Aybak town, however, has some wholesalers who selectively grant short-term credits to the retailers.

### **Infrastructure, logistics and other facilities**

As mentioned earlier, the Samangan province lacks roads to reach the countryside except the national highway that passes through the province. No facilities to store the perishable products are created to export to better markets and capture higher prices. No facilities exist to process the perishable products that could not be sold in the markets outside the province. The rural roads as well as the condition of transport vehicles are poor that adversely affects the input supply as well as market access.

### **Transportation**

Most rural roads are unpaved and often become inaccessible from November to March although Aybak town has very good connection with Mazar-e-sharif and other major urban areas. The domestic transports, currently in use to market the products, are horse-carts or

donkeys. Nearly half of the villages in Samangan are difficult to reach by available transport in one single day.

#### **Irrigation facility**

Like other areas of Afghanistan, water availability was the single scarcest resource to expanding agriculture in Samangan. It is reported that the underground water level in the area has fallen considerably. Surface water for irrigation has been reported as diminishing. The access to and the increased use of water resources for new projects may become an issue. The amount of cultivable land available for new projects is also very limited. The most of the area in Samangan is mountainous with very limited arable or pastoral land.

#### **Legal, taxation other issues**

The legal requirements to run new projects are not clear even to the provincial authority. It appears that small enterprise programs do not need additional documents or permits than what is required for the micro-finance programs from the government and the local authority. Unofficial taxes exist in some parts of the province but the amounts are not very high.

#### **Safety and security**

As found in other provinces, Samangan also faces similar security problems although the incidence of crime is not reported very high. No formal safety measures are in place. In the worst cases, the pulling out of the investment may not be possible or feasible.

### **3.4 Most promising sectors for income generation**

Given the current situation in Afghanistan, relevant data at the provincial level is either unavailable or incomplete. Thus, it is difficult to calculate the rate of return for specific investments. Based on information collected from the key informants and observation of the economic activities of the area, it has been possible to make a qualitative assessment of the potential sectors of investment in the province.

Samangan is a poor province and the population has consistently been increasing since the war was over. The need for essential food products such as bread, meat, milk, fruit and vegetables has also been rising to meet the demand of the increasing population in the area. Samangan is not self-sufficient in food production at present and the current production is largely inadequate to meet the domestic demand. Investing on food production and distribution, therefore, is a logical choice in Samangan. However, the investors have to face a series of challenges and overcome these to make their projects viable. These are dependency on the traditional farming system, lack awareness of improved varieties of seeds, low productivity, poor irrigation system, and the lack of storage, packaging and marketing facilities.

The area has a long tradition and expertise of weaving – most of which were destroyed by the war. While the carpet and rag makers are slowly returning home and trying to rebuild the sector, they have been facing difficulties as well. Most of them have very limited resources to invest. Also, the necessary skills of the weavers that the sector demands are lacking as they have been away from this craft for many years. This is further aggravated by the limited buying capacity of the local consumers and the absence of the linkages with other customers. The

consumer market in Samangan is not large and the scope of expansion of food production and establishing large-scale weaving factory is limited at present.

The most potential sector in the area appears to be weaving (rag and carpet making, sewing, etc.) for two major reasons. First, fluctuation of weather is not a barrier for the sector and, thereby, the production might continue throughout the year. Second, the participation of (and, to some extent, the control over the project) by women could be ensured. The next major sector for investment is farming (including agriculture, livestock raising and vegetable cultivation). The third sector, identified for investment in the province, is small trading (tailoring, cloth merchandizing, bakery, restaurant, variety stores, shoe traders, vendors, etc.), and transportation (auto-rickshaw, donkey and horse driven carts). However, the current market size and the buying capacity do not support immediate opportunities to significantly expand the sectors discussed.

In the following section, an attempt has been made to categorize the sectors by the size of investment required and the management of the investment in the Samangan province. These are:

### Micro-finance projects

- a. Home-based sewing and weaving (for rag and carpet making),
- b. Horticulture nursery (for almonds, grapes, melons, apples),
- c. Kitchen gardening (for tomato, reddish, turnip, carrot),
- d. Agriculture (for wheat and maize cultivation),
- e. Livestock raising (for sheeps and cows),
- f. Poultry (broiler rearing) and
- g. Small trading (butchery, shoe repairing, carpentry).

### Small enterprise programs

#### a. Weaving carpets and rags:

Samangan produces several types of handmade carpets, including wool and fabric carpets (AISA, 2005). The governor has also expressed his interest in this sector to support. It should be noted that the manufacture of carpets requires a huge network of weavers working on individual carpets at home. The advantages of this sector are:

- providing training to this traditional craftsmen does not require much resources and time,
- carpet manufacture is easy to start and sustain because of its relatively low utility costs and basic technology requirements,
- women can better spent their time in this enterprise since the activity is essentially home-based,
- the change of weather has very little or no effects on the continuity of production and
- carpets are easy to store, stockpile and ship.

b. Fruit processing:

This is also a traditional sector in Samangan. Dried fruits and nuts such as raisin, almonds, apricots and walnuts can be major sector of investment as export commodity.

c. Transportation:

Both motorized and animal driven transports may come under this sector. Providing credit to buy rickshaws (motorized vehicles) is a promising sector as the rate of return is quite large. Donkey and horse driven carts are largely used in Samangan particularly in the remote villages with unpaved roads.

d. Engineering workshop

The use of motorized vehicles, electric goods (such as water pumps, machineries and other home-based utilities) are consistently increasing. Thus, the opportunities to invest in these service sectors are likely to expand in coming years.

e. Retail shops

A variety of retail outlets such as fabric traders, restaurants, bakeries, pharmacies, etc. are now in operation in the area. The owners expressed their interest in the credit opportunities to expand their businesses.

The Governor and his two associates have expressed their interest and proposed that large financial institutions should invest to establish factories (fabrika) in Samangan province. The projects they have identified for investment have been:

- a. factories to manufacture kitchen utensils such as cookers, plates, glasses, spoon, bowls (made by steel and aluminum),
- b. engineering workshops to produce iron and steel products (such as bukharies),
- c. milk processing plant (to produce various dairy products) and
- d. large handicrafts (to process wool and produce carpets).

Such projects require significant investment on both the operational and production sides. The micro-finance institutions (MFI), currently operating in Samangan province, have their upper limits in providing credit for a particular project. The proposed sectors require capital much more than the current limit that the MFIs can provide in the area at present. However, the commercial banks and other financial institutions are capable to invest in such large projects. If Samangan provincial authority and the local entrepreneurs express their demand to the Afghan government to allow large financial institutions to operate in their province, the chance is good for them to have large credit partners on their side. This, however, would require some time for those institutions to come and invest in the proposed projects.

## 4. Summary and Implications

The report summarizes the scope for investment and their limitations. The investment opportunities are presented in three broad categories based on the size of the capital and the management of the projects.

- a. **Micro-finance programs:** Under this scheme, the proposed projects appear to have the income potential with little operational investment and skills. The poor and hardcore poor are the potential beneficiaries of this programs where they may invest in several projects such as horticulture nursery, kitchen gardening, agriculture, livestock raising, poultry, small trading and home-based sewing and weaving. At present, the upper limit of micro-credit is 10,000 afg for the first year which subsequently increases based on the size and income of the project. No collateral is required.
- b. **Small Enterprise Programs (SEP):** Under SEP, the study recommends a number of sectors where investment appears to result favorably if other conditions improves or remain favorable. The potential SEP sectors are: weaving carpets and rags, fruit processing, transportation, engineering workshop and retail shops. The amount of credit ranges between 40,000 to 100,000 afg depending on the size of the enterprise.
4. **Large Financial Institutions:** An entrepreneur may seek any amount of credit to those institutions. Investment in such projects, however, would require some time to begin in Samangan because several official procedures have to be completed to make these projects fully operational.

The risk factors and limitations of investing in Samangan are:

- a. Inadequacy of inputs in processing and marketing the products.
- b. Limited information, poor management and the absence of commercial transactions.
- c. Limited institutional support, poor communication and transportation system.

There are indications, however, that such risk factors have consistently been reducing in the area. Infrastructure has been built and the communication system has been expanded under the national solidarity program (NSP). The power supply, an essential input for economic development, has becoming increasingly better in Samangan than before. The investment in Samangan will add value to the society, to its economic future and to the investment itself. The investment projects, however, alone do not guarantee economic success and must be accompanied with other market developments to assure long-term economic development in Samangan. This study suggests that the Afghan government, with the assistance of the provincial authority, should take several measures to enhance the resource flow and income generation activities in Samangan. These are:

- a. **Capacity development:** This should receive priority. Samangan has very limited number of skilled manpower to develop and effectively run the projects. A coordinated effort is needed to develop adequate local manpower for the investors. This effort might be coordinated with the non-governmental organizations having such skills.

- b. Secured financial transactions must be ensured by establishing banks or other financial institutions in the area for smooth and prompt transfer of money.
- c. Backward and forward linkages to ensure the routine supply of inputs and marketing the products should be established.

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# Appendix

## BRAC Afghanistan Investment Program in Samangan Province Date: 6-8 December 2005

### Feasibility Study Guide

#### Source of information:

- a. Governor:
- b. NGO staff:
- c. Entrepreneur (type):
- d. District/area:

#### 1. Types of potential projects

- a. What are the existing products or services in the area?
- b. What are the economic activities doing very well?
- c. What are the activities doing fairly well? Why?
- d. What are the projects having problems? Why?
- e. What are (existing or new) projects where additional investment justified?

#### 2. Input required

- a. What are the budgeting and financial needs?
- b. What are possible sources for financing?

#### 3. Profitability

- a. What is the comparative advantage of MFI?
- b. What will prices be for both inputs and outputs?
- c. What will be the management cost?
- d. Can investors pay enough to attract good personnel?

#### 4. Supports needed

- a. What kinds of supports are needed?
- b. What are the possible sources of this capital?
- c. How much money is needed?
- d. What supports are available from the community and lenders?
- e. Are strategic alliances with others possible?
- f. Is forward linkage possible or needed?

#### 5. Market size

- a. What is the size of the market?
- b. What is the anticipated volume of sales?
- c. What is the number of producers who are willing to participate?
- d. What future expansion of both membership and volume is possible?
- e. Who are the major competitors?
- f. What are their market shares, facilities, and business structures?

#### 6. Availability of infrastructure

- a. Road:
- b. Market/trading points:

- c. Power supply:
- d. Banking facilities:
- e. What additional facilities are needed?
- f. Availability to purchase, build or lease the facilities?

**7. Management/personnel**

- a. What are management requirements?
- b. What are the organizational needs for the project?
- c. What skills will be required for the management team?

**8. Security and pull-out strategy**

- a. Are the incidences of crime very high?
- b. What are the possible safety measures?
- c. Are pulling out the investment possible or feasible?

**9. Geographical environment**

- a. Is the access to water sources adequate for new projects?
- b. Is cultivable land available for new projects?
- c. Pastoral land adequate?

**10. Community**

- a. Profile of the community:
  - poverty level:
  - source of income:
  - dependency on relief:
  - ethnic relationship:
  - level of displacement:
  - landlessness:
  - Literacy
  - Micro-finance players:
- b. Will they be willing to adopt new technology?

**11. Legal issues**

- a. What are the legal requirements?
- b. What documents or agreements are needed?
- c. What permits and inspections will the project require?

**12. Strategic decisions**

- a.
- b.
- c.