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## **Afghanistan**

**Post:** Kabul

### **2011 Afghan Agricultural Economy Update**

**Report Categories:**

Agriculture in the Economy

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**Report Highlights:**

The agricultural economy in Afghanistan accounts for approximately 1/3 of gross domestic product and employs an estimated 80 percent of Afghans either directly or indirectly. Annual growth remains dependent on cereal and annual crop production which accounts for over 80 percent of agricultural economy and is heavily dependent on the weather making sector growth subject to wide fluctuations year to year. Agricultural trade continues to grow both in terms of exports and imports but remains regional as traders lack the capacity to engage in wider international trade.

**General Information:**

Afghanistan’s economy has faced widespread devastation over the last thirty years due to war and political instability wiping out the economic infrastructure and institutions across the country. Recent drought years have exacerbated these problems on the agricultural sector. However, since 2001 Afghanistan’s economy has rebounded primarily due to the rapidly expanding service sector, electrification, and transportation infrastructure development. Since 2003 the Gross Domestic Product (GDP) [1] has grown by an average of thirteenth percent annually peaking in 2009/10 with 22.5 percent year on year growth.

The agriculture sector makes up approximately one-third of GDP and is vulnerable to wide fluctuations depending on weather and policy actions of Afghanistan’s neighbors. Despite representing one-third of the economy agriculture employs an estimated 80 percent of Afghans. The agriculture sector overall is very dependent on cereal and other annual field crop production which accounts for an estimated 80 percent of total agricultural GDP. Wheat cultivation makes up the largest share of this component of the sector. Livestock production contributes 14 percent of agricultural GDP and fruit and nut production 6 percent. Despite accounting for a mere 6 percent of agricultural GDP, fruit and nut production and export is widely thought to be the engine for the agricultural sector’s growth in future years.

**Agriculture Economy:**

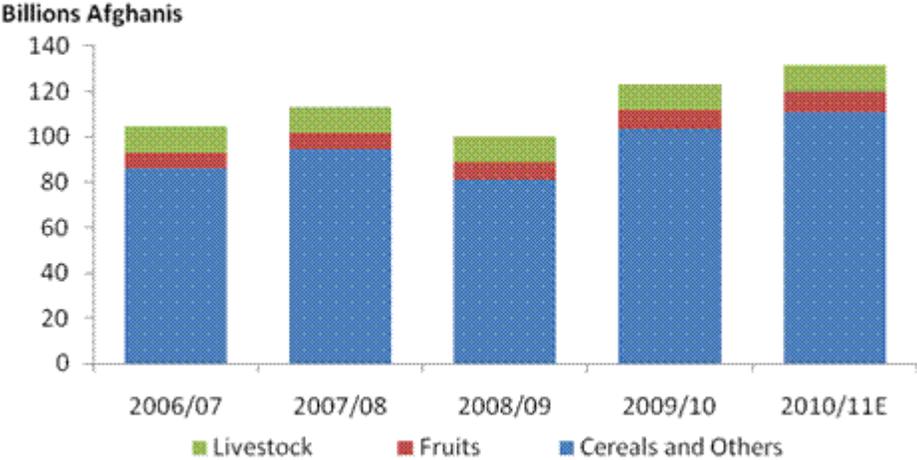
Despite high agricultural employment (relative to other sectors), a shockingly small amount of Afghanistan’s land area is arable (7.9 million hectares, 12 percent of total) and only half is cultivated on an annual basis. Out of the total arable land only 23 percent (2 million hectares) is irrigated and 22 percent (1.7 million hectares) land is cultivated as rain-fed agriculture, while the remaining 55 percent (4.2 million hectares) land is fallow. Wheat is the main cereal crop, covering almost 32 percent (2.6 million hectares) of the total arable land, 70 percent of cultivated land, and 80 percent of cereal area. Wheat is grown by most farmers as a subsistence crop cultivated on small plots of irrigated or rain-fed land.

Land Use Classification	Million Hectares	Percent
Arable Land	7.9	12%
Forests	1.7	3%
Permanent Pasture	30.0	46%
Mountains and Barren Land	25.6	39%
Total Land Area	65.2	100%

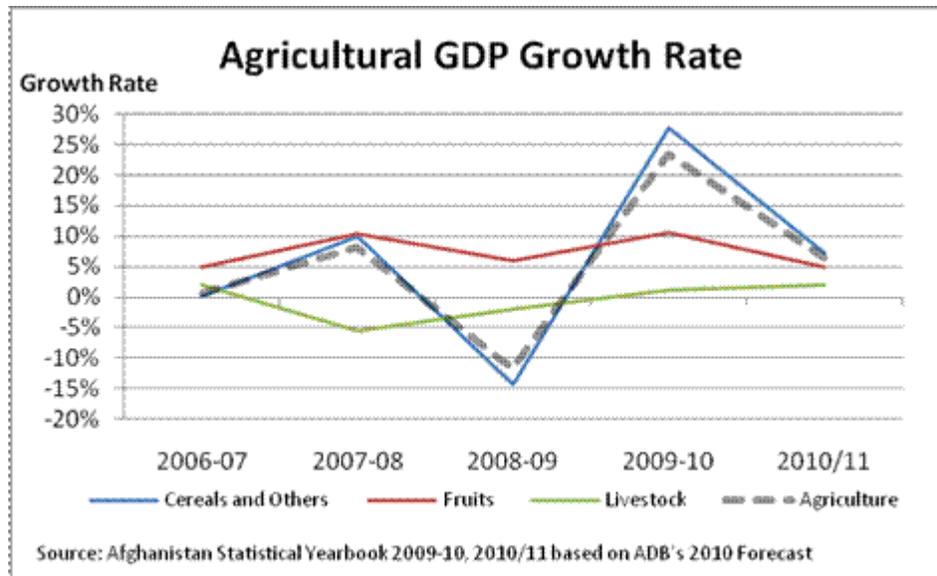
Growth in the agricultural economy is highly variable year-to-year depending heavily on the accumulation of snow pack during winter months and the timely melting of that snow pack in

spring/summer. During Solar Year 2009/10 [2] the agricultural sector sharply rebounded from the drought affected 2008/09 year due to almost perfect growing conditions and strong commodity prices which produced a record wheat crop, growing livestock numbers, and improved fruit production. In total, the agricultural sector grew by over 20 percent in 2009/10. Cereal sector growth was the major contributor to the explosive growth during 2009/10 but it should be noted that both fruit and livestock subsectors also grew (by 10 percent and 1 percent respectively). The Afghan Central Statistics Organization have yet to release the estimates for 2010/11 or a forecast for 2011/12 but signs point to a strong year for agricultural growth in 2010/11, albeit likely below the 20 percent growth exhibited in 2009/10. The Asian Development Bank forecasts Afghan GDP growth at 8.9 percent in 2010 and 6.8 percent in 2011. Based on ADB's estimate Post predicts that all agriculture sectors (cereals, fruits, and livestock) will grow in 2010/11. 2011/12 will likely result in a contraction of the agricultural economy due to the drought condition which affected the wheat crop and pasture land.

### Composition of Agriculture GDP



Source: Afghanistan Statistical Yearbook 2009-10, 2010/11 based on Asian Development Bank's growth forecast



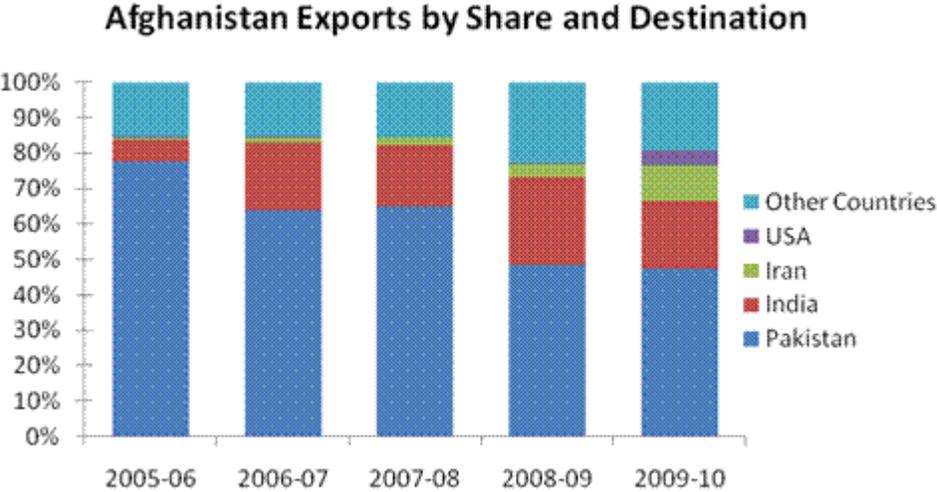
### **Afghan Farm Economics:**

Afghan farms are very small and this continues to be a constraint facing farmers as they work to break the subsistence agriculture trap and produce agriculture for commercial markets. According to the Afghan Central Statistics Office's National Risk and Vulnerability Assessment Survey 2007-08 about 40 percent of households have access to the irrigated land with average farm size of 1.34 hectares and 17 percent households have access to rain-fed land with an average farm size of 2.8 hectares. Small land plots and low productivity mean that in most years Afghan farmers produce to satisfy the food requirements of their household with limited agricultural production entering commercial marketing channels. Small plots also make it less likely that Afghan farmers are able or willing to adopt new technologies and techniques as the small land plots cause the risks to outweigh the potential benefits.

### **Agricultural Trade:**

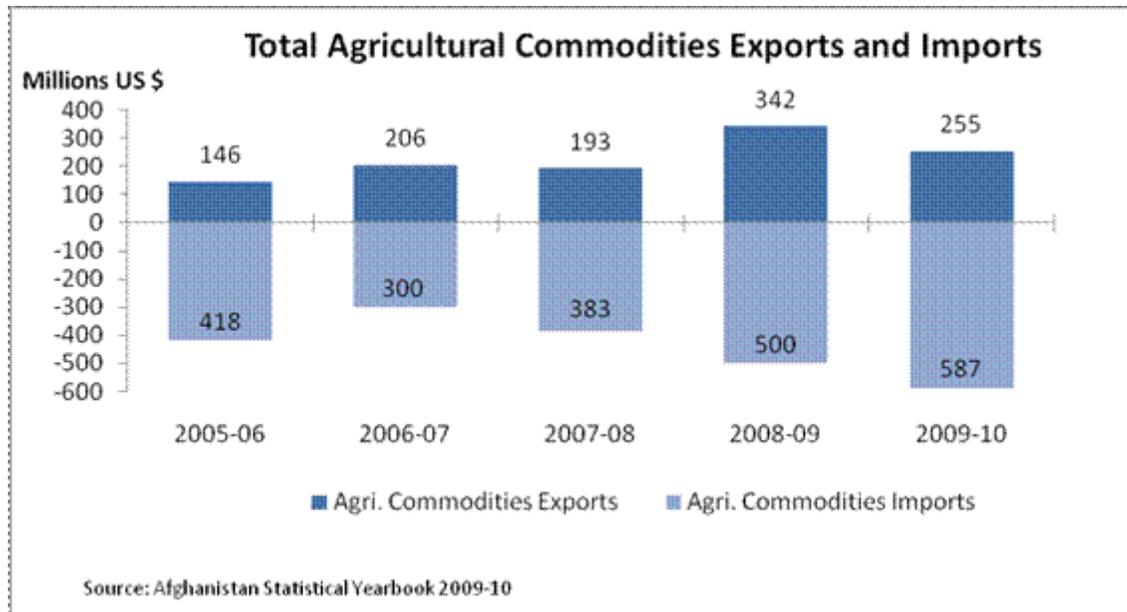
Afghanistan runs a trade account deficit overall and in the agricultural sector. Agricultural products (including carpets and rugs) make up about 80 percent of total licit exports. Export growth tracks the overall growth in the agricultural economy closely in that productive years translate into increasing agricultural exports. Major exports are dried fruits and nuts such as raisins, figs, almonds, and pistachios. Raisins are the number one agricultural export making up 21 percent of the total value (53 million U.S. dollars) of all agricultural exports in 2009/10. Almond, pistachio and walnuts together are the bulk of the nut exports and are estimated at close to \$95 million in 2009/10 representing 32 percent of total agricultural exports. The carpet and rug industry contributes almost 36 percent (148 million U.S. dollars) of the value of total licit exports and employs more than three percent of population. [3] Major export destinations remain Afghanistan's neighbors Pakistan, India, Iran, Russia and Central Asian countries. In recent years the importance of Pakistan as a market for Afghan agricultural products has diminished

as traders have familiarized themselves with buyers in other neighboring countries and sought higher premiums for their products, especially in Iran and Russia. In the short run export prospects are constrained by the current quality of Afghan agricultural products and the capacity of the private sector to engage in international trade. Simply, the quality of Afghan produce does not meet consumer preferences in high-end markets such as the U.S. and European Union. Producers are fast improving their products and trade will expand to high-end markets in the medium and long term. Traders are becoming familiar with commonly accepted trading terms and are rapidly improving their capacity to work with international buyers.



Source: Afghanistan Statistical Yearbook 2009-10

Afghanistan imports agricultural products that it cannot produce or cannot meet the demand for through domestic production. Eighteen percent of total imports are food commodities such as wheat and wheat flour, rice, sugar, vegetable oils, chicken and beef, and tea. Agricultural imports as a share of total imports has declined in recent years as the demand for petroleum and consumer goods has increased. Despite a declining share, growth in imports continues to outpace the growth in agricultural exports.



### Agro-Industry:

The industrial development of the agricultural sector began in the early 1960s with economic reforms and rapid industrialization assisted by foreign aid and technical assistance. Prior to the Soviet invasion in 1979 a diversified agro-industry operated producing textiles, sugar, fertilizer and wheat flour. State ownership in agro-processing was and continues to be very high. Decades of war, political instability, and neglect has all but destroyed internationally competitive agro-processing in the country. Presently, limited technical capacity, electricity, and raw materials constrain agro-processing.

Prior to the Soviet invasion, the state owned cotton industry played a prominent role throughout Afghanistan. State owned gins were located in Pul-i-khumri, Gulbahar, Bagrami, Balkh, Kunduz Helmand and Jabal Saraj. In Kunduz, Spinzar cotton gin was the first industrial plant formed by private traders before later being taken over by the government processing cotton, extracts edible oil and prepared cotton cake. Cotton processing has all but collapsed over the past 30 years and only a few gins are currently in operation processing an estimated 30,000 tons of cotton annually.

Presently, the wheat milling industry is the largest agro-based industry in Afghanistan. State owned mills built by the former Soviet Union only partially operate and are mostly used as storage facilities. Commercial flour mills began operation after the fall of Taliban but remain uncompetitive when compared to Pakistani flour imports. Commercial mills are not operating at full capacity and are constrained by the unavailability of wheat, high operating and labor costs, and competition from Pakistani flour. Prior to the commercial and state owned milling, wheat was processed by traditional water and diesel mills (*called asiabs or ziranda*). These small scale water mills and diesel mills remain an active part of the milling industry operating in the rural areas and processing more than 90 percent of domestic wheat production annually.

Recently other agro-industries have popped up particularly in processing fresh and dried fruits and nuts for export. Omaid Bahar, a juice concentrate facility in Kabul, is one of the modern agro processing industries processing pomegranates and other fruit into concentrated juice and employing more than 200 people. Omaid Bahar factory processes 70 tons of fruit producing 10,000 liters of fruit juice concentrate each day. Fruit oriented agro-processing face constraints on a number of fronts which limits the potential of the industry including reliable electricity, human capital, storage, and input supplies.

In the 1980s more than thirty raisin processing factories existed in Afghanistan but at present only eight are operational (two each in Mazar, Parwan and Kandahar; and one each in Kabul and Herat cities). These factories are equipped with antiquated processing equipment and produce poor quality raisins which are below international standards. The majority of raisin production is exported without any processing to Pakistan and India and then re-processed and exported.

### **Government Institutions' Role in Agricultural Economy:**

The Ministry of Agriculture and Livestock (MAIL) is the core institution for agriculture promotion and development. MAIL has multiple roles in the agriculture economy ensuring food security, economic regeneration and poverty reduction, natural resource management, and poppy eradication through alternative livelihoods. MAIL's prime goal is to achieve the food self-sufficiency in basic food staples especially wheat, horticulture and livestock through the high quality inputs and services. The second goal is to generate incomes from agriculture commodities and move farmers away from subsistence to commercial agricultural production. MAIL plays a vital role to support the producer and traders in the production of commercial crops, value addition, and links them to the domestic and international markets.

Before 2004 MAIL's role in irrigation was not clearly defined but after passing the new water law the water sector responsibilities were clearly divided between certain institutions; the Ministry of Energy and Water (MEW) has the responsibilities of planning, management and development of water resources, the Ministry of Rural Rehabilitation and Development (MRRD) is responsible for the rural drinking water supply and informal irrigation systems, and MAIL has the responsibilities of the rehabilitation and development of Afghanistan's irrigation infrastructure and the construction of small scale dams and water catchments. Irrigation is the key component in the agriculture productivity enhanced farm production and contributes to the farm economy. In 1970s total irrigated area was 3.3 million hectares dropped down to 1.8 million hectares in 2011 due to civil war, drought, flood and destruction of irrigation systems. International donors are focuses a great amount of attention on irrigation and watershed rehabilitation in hope of expanding the area on irrigation. MAIL also initiated an on farm water management program to support farmers in the water saving techniques through better irrigation techniques, improves water distribution system, facilitates and established irrigation association, and strengthening traditional mirab system.

Ministry of Energy and Water (MEW) mainly focus on power sector but it also has a crucial role in the development of water resources and management. The MEW has the mandate to implement water policy, river basin management, water distribution and management, water projects and also deal with cross boundary water in consultation with the Ministry of Foreign Affairs. MEW deals with the rehabilitation and maintaining of major water resources and the construction of small, medium and large scale dams, and reservoirs to retain water not only for hydro electricity but also to expand and intensify irrigated agriculture. At first the irrigation department was managing by MEW but following the new water law was transferred to the Ministry of Agriculture and MEW hold only the responsibility for large scale water resources development and management. With the support of donor community, MEW rehabilitates irrigation system and water sources in different part of country.

Ministry of Rural Rehabilitation and Development (MRRD) has an active role in supporting rural communities to reduce poverty and promote economic and social opportunities. Whilst agriculture and livestock represent the dominant economic sector of the rural population MRRD playing significant role in the pro-poor growth and social and economic well being of the rural communities. MRRD through the National Solidarity Program established Community Development Councils (CDCs) at village level empowered rural community in the local governance and community driven development programs. MRRD enhanced the livelihood of rural communities through microfinance and rural enterprise development and with small scale basic infrastructure programs like construction and rehabilitation of rural road, schools, clinics, drinking water reservoirs, retention walls, and irrigation system.

The Ministry of Commerce and Industry (MoCI) supports the trading and manufacturing sector with appropriate policies, regulations, and facilitations. The Afghan trading and manufacturing sector is dominated by agriculture and a substantial part of the private sector is based on agriculture commodities (either through trading or processing). MoCI has developed and implemented policies such as industry policy, small and medium enterprise policy, and export policies to facilitate and encourage the private sector development in Afghanistan. The most important function of MoCI is to facilitate the international trade system. MoCI's Export Promotion Agency of Afghanistan (EPAA) plays active role in the promotion of Afghan products to international markets. EPAA simplify and implement the export promotion policies and procedures, removing export barriers enhancing export capacity, and awareness through export promotion development tools, advising and advocacy, marketing to export Afghan goods into global market.

Ministry of Finance (MoF) is responsible for the allocation and management of the government's core and development budgets, public expenditure and payments to government personnel, and the collection of revenues and taxes. The agriculture and rural development sector is the 4<sup>th</sup> recipient of the total national budget after security, education, and infrastructure sectors with a 4 percent share (387 million U.S. dollars) of the total national budget in 2010 [4] . MAIL shared 2.6 percent of the total national budget of which 24 million U.S. dollars was operating budget and 94 million U.S. dollars was developmental budget executed for the promotion of MAIL agriculture production and productivity,

natural resource management, and economic generation programs. The development budget is financed by donor agencies in the form of grants and small loans.

<sup>[1]</sup> World Development Indicators, World Bank.

<sup>[2]</sup> The Afghan Solar Year is April – March.

<sup>[3]</sup> Afghanistan Statistical Yearbook 2009-10.

<sup>[4]</sup> Ministry of Finance, Afghanistan 2011