AFGHANISTAN’S
NATIONAL EXPORT STRATEGY 2018-2022

CARPETS SECTOR
A competitive sector blooming with looms
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ACKNOWLEDGEMENTS

The Carpets Strategy forms an integral part of Afghanistan’s National Export Strategy (NES). It was developed under the aegis of the Islamic Republic of Afghanistan and the leadership of the Ministry of Industry and Commerce (MoIC) and the Afghanistan Chamber of Commerce and Industry (ACCI), in close collaboration with the Afghanistan National Standards Authority (ANSA) and the Afghanistan Women Chamber of Commerce and Industry. The Strategy benefited from the contributions of sector stakeholders and associations, who played an important role in the consultative process, particularly the Afghan Carpet Exporters Guild (ACEG) and the Afghanistan Rugs and Carpet Centre. This Strategy was elaborated thanks to the technical assistance of the International Trade Centre (ITC) and falls under the framework of the European Union (EU)-funded ‘Advancing Afghan Trade: EU Trade Related Assistance’ project.

This document reflects the ambitions of the public and private stakeholders who defined the enhancements and future orientations for the sector with a view to increasing export performance and social dividends.
Afghanistan’s NES was developed based on a participatory approach during which over 500 Afghan industry leaders, small business owners, farmers and public sector representatives held consultations to reach consensus on key sector competitiveness issues and priority activities. These inclusive consultations were held throughout the country, including in Mazar-e-Sharif, Herat, Kandahar and Kabul, with participation of stakeholders coming from Nangarhar Province.

Besides in-depth research and value chain analysis, these consultations were complemented by:

- **Factory visits** through which supply chain assessments were carried out to gain further knowledge on key issues such as quality procedures, technical skills, lean management, quality of raw materials, access to market, etc.
- **Interviews with domestic, regional and international buyers** to guide the NES with strategic insights and market intelligence as well as buyers’ requirements in terms of quality standards, food safety, packaging, buying cycles, distribution channels, prices, etc.
- **Donor coordination meetings** to identify synergies with ongoing/planned initiatives of development partners to eventually result in collaboration during the implementation phase.

**In spirit and in action:** The NES is aligned with existing national and sector-specific plans and policies and builds on ongoing initiatives in areas related to private sector development, regional integration, investment, and youth and women’s economic empowerment.

Equally important, the NES initiative already accommodates budgeting to support implementation of critical pilot activities identified during the design process. This will ensure that impact and momentum are generated from early on, and support further resource mobilization and confidence-building.
The principal outputs of the NES Afghanistan design initiative are endorsed, coherent and comprehensive export Strategy documents with a five-year detailed plan of action (PoA) and implementation management framework. These documents include:

1. A main NES document, which contains Trade Support Functional strategies, offering critical support across value chains and acting as enablers for sector development.
2. Individual NES priority sector strategies packaged as separate documents but in alignment with the main NES findings and overarching strategic objectives.

**NES Afghanistan**

**Main NES document comprising Trade Support Functional Strategies:**

- Quality management
- Trade facilitation
- Trade information and promotion
- Skills development
- Business and professional services
- Access to finance

**Individual NES priority sector documents:**

- Saffron
- Fresh fruits and vegetables
- Dried fruits and nuts
- Carpets
- Marble and granite
- Precious stones and jewellery
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STRATEGIC OBJECTIVE 2: ENABLE PRODUCTIVITY ENHANCEMENT OF SECTOR OPERATIONS THROUGH INCREASED COORDINATION AND APPROPRIATE SKILLS UPGRADEING.

STRATEGIC OBJECTIVE 3: IMPROVE REGULATORY AND INSTITUTIONAL SUPPORT FOR THE SECTOR.

STRATEGIC OBJECTIVE 4: STRENGTHEN MARKET LINKS AND ENTERPRISE ABILITIES TO FORGE/SUSTAIN BUYER RELATIONSHIPS THROUGH IN-MARKET SUPPORT, BRANDING AND STREAMLINING CUSTOMS PROCEDURES.

MOVING TO ACTION

KEY REQUIREMENTS FOR EFFECTIVE IMPLEMENTATION

Establish and operationalize a public and private coordinating body and executive secretariat

STRATEGIC PLAN OF ACTION

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<thead>
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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ACCI</td>
<td>Afghanistan Chamber of Commerce and Industries</td>
</tr>
<tr>
<td>ACEG</td>
<td>Afghan Carpet Exporters Guild</td>
</tr>
<tr>
<td>ANSA</td>
<td>Afghanistan National Standards Authority</td>
</tr>
<tr>
<td>ARAZI</td>
<td>Afghanistan Independent Land Authority</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>HS</td>
<td>Harmonized System</td>
</tr>
<tr>
<td>ITC</td>
<td>International Trade Centre</td>
</tr>
<tr>
<td>MAIL</td>
<td>Ministry of Agriculture, Irrigation and Livestock</td>
</tr>
<tr>
<td>MoCI</td>
<td>Ministry of Commerce and Industries</td>
</tr>
<tr>
<td>MoE</td>
<td>Ministry of Education</td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MoLSAMD</td>
<td>Ministry of Labour, Social Affairs, Martyrs and Disabled</td>
</tr>
<tr>
<td>NEPA</td>
<td>National Environmental Protection Agency</td>
</tr>
<tr>
<td>NES</td>
<td>National Export Strategy</td>
</tr>
<tr>
<td>PoA</td>
<td>Plan of action</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>TVET</td>
<td>Technical and vocational education and training</td>
</tr>
<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY: AFGHAN CARPETS, WEAVING THE TRADITIONAL AND MODERN ERAS

Afghan carpets are symbolic of the country’s rich heritage, reflecting both the struggles experienced in contemporary times as well as optimism for the future. It is a storied and resilient sector, with industrial potential and a compelling brand proposition. It is one the country’s largest export sectors and an employer of more than 1 million Afghans, of which the majority are women.

Indigenous Afghan designs based on traditional weaving methods hold a comparative advantage when sold in international markets. Yet, the limited pre and post-weaving processing capacity currently hinders gains. Foreign suppliers are frequently relied on for the provision of critical inputs whereas semi-finished Afghan carpets are sent to Pakistan for the final stages of production (particularly, washing and cutting) while losing their brand identity in the process.

The sector must capitalize on its unique offering and distinctive reputation to leverage established trade relationships with certain European countries and American buyers while exploiting existing ties in the Gulf and Asian markets. Besides strengthening market linkages, this will require enabling appropriate skills-upgrading and productivity enhancement in order to scale-up production capacity and retain value options domestically.

STRATEGIC OPTIONS FOR REVIVING THE SECTOR

The Carpet Sector Strategy is driven by the following overall vision:

“A competitive sector blooming with looms"

To achieve this vision, the Strategy focuses on four strategic objectives.

Strategic objective 1: Preserve/capture increased value at the inputs and processing stages of the value chain.

This strategic objective has the goal of repatriating value currently leaking out of the country (specifically to Pakistan). Initial aims of the Strategy are to increase production of Afghan wool in the medium-to-long term, as well as the domestic supply of good quality scoured/spun/dyed yarn for traders and weavers. Upgrading existing and development of new cut/wash/dry facilities will be crucial to achieve the goals of retaining value and building a strong Afghan brand. The Strategy will also support the Government’s ongoing efforts to establish industrial parks for the sector. This includes rectifying infrastructural and technical challenges faced in current initiatives.

Strategic objective 2: Enable productivity enhancement of sector operations through increased coordination and appropriate skills upgrading.

This strategic objective is focused on improving the sector’s abilities through upgrading in-demand skills, as well as technological enhancement of sector operations. Sound links between the private sector and education and training institutions will facilitate innovation and growth in the industry. The sector will benefit from increased cooperation among key stakeholders to foster skills upgrades across the value chain. While traditional weaving techniques will be preserved, the adoption of technology will spur improvements to sector competitiveness. Promotion of investment in the sector will be a key measure to achieve technological enhancement of sector operations.

Strategic objective 3: Improve regulatory and institutional support for the sector.

This strategic objective aims to improve the socioeconomic conditions of the weaving community, reduce child labour in the sector, and provide crucial institutional support in the areas of quality management and land access, among other aspects.
To gradually counter child labour, the Strategy will bring weaving communities out of isolation into weaving workshops/centres with better working conditions. Efforts will also be made to increase ‘child labour free’ certifications in the country.

Upgrading the national quality infrastructure is a prerequisite for the recognition and appreciation of the Afghan carpet brand in international markets. Easing burdensome land regulations and streamlining property ownership/leasing will be another focus area addressed by the Strategy. Increasing access to a more comprehensive range of financial services will also be emphasized, to support improvement of current production processes and the expansion of the carpet industry.

**Strategic objective 4:** Strengthen market links and enterprise abilities to forge/sustain buyer relationships through in-market support, branding and streamlining Customs procedures.

To improve the carpet sector’s position in the global market, it is vital to strengthen market links and enterprise abilities to forge and maintain commercial relationships.

The Strategy aims to expand the export opportunities of Afghan carpet enterprises by improving in-market support services and the dissemination of market intelligence. Strengthening the Afghan carpet brand will also play an essential role in this Strategy. The sector will also benefit from the streamlining of export clearance procedures and better communication and cooperation with Customs authorities of neighbouring countries.

Figure 1 captures the carpet sector vision and strategic objectives.
EXECUTIVE SUMMARY: AFGHAN CARPETS, WEAVING THE TRADITIONAL AND MODERN ERAS

Figure 1: Carpet Sector Strategy - Theory of change

**Vision**

An organized and competitive sector with well-articulated differentiation in terms of high-quality hand-made carpets catering to high-end markets and highly responsive to buyer requirements.

**Strategic Objectives**

1. Preserve/capture increased value at the inputs and the processing stages of the value chain.
2. Enable productivity enhancement of sector operations through increased coordination.
3. Improve the regulatory and institutional support for the sector.
4. Strengthen market links and enterprise capabilities to forge/sustain buyer relationships through in-market support, branding and streamlining of Customs procedures.

**Impact**

A stagnant sector facing intense competition and eroding competitiveness and brand equity, despite inherent strengths, specially in weaving and design.

**Compete**

- Weak ability to add value in country
- Insufficient pre- and post-weaving facilities to meet industry demands
- Scarcity of high-quality wool and other critical inputs
- Weak capacity to adapt production to buyer requirements
- Lack of standardization/irregular quality
- Negative image internationally related to child labour and health issues

**Connect**

- Challenges to connect directly with international buyers
- High dependence of Afghan producers and traders on foreign service providers and merchants
- Afghan carpets labelled as foreign
- Weak organization among producers to initiate direct marketing
- Lack of business/marketing skills
- Institutional support needed on market intelligence, in-market support and branding, transport and logistics

**Change**

- Insufficient access to credit and land result in low levels of investment
- Weak offer of financial services
- Skills to innovate, such as design skills, are critically needed
- Lack of links between the private sector and educational institutions.
WHAT IS THE TRAJECTORY OF GLOBAL SUPPLY CHAIN?

Figure 2 captures the main types of carpets produced globally, segmented by mode of production, fabrication, dye type and material. Afghan carpets fall primarily under the hand-made, knotted, vegetable dye and natural fibre categories (Harmonized System (HS) 5701).

Figure 2: Carpet Types, Traditional Afghan carpet type in blue

DEMAND TRENDS: STEADY GROWTH FOR BOTH CONTEMPORARY AND TRADITIONAL CARPETS SEGMENTS

The global carpets sector is exhibiting steady growth, primarily among developed countries. In 2016, world carpet imports stood at US$ 13.6 billion. World imports of woven, decorative carpets (relevant to types produced in Afghanistan) were valued at US$ 1 billion in the same year.
The following key trends have been observed in international markets:

1. Distributors and retailers are stocking multiple carpet types (hand-made and machine-made, traditional and modern designs).
   Market demand is not skewed towards a particular segment, especially in the United States of America and EU markets, where the market is large enough to accommodate different consumer tastes. For this reason, distributors and retailers are increasingly stocking a variety of carpets from different sources.

2. In spite of the rising popularity of modern designs, traditional designs are still in demand.
   Modern designs are popular but demand in Western countries for antique and traditional carpets – including traditional, hand-woven high-quality Afghan carpets – has remained stable. Buyers in international markets also appreciate carefully selected materials and updated designs inspired by elegant, traditional patterns. This bodes well for Afghan suppliers primarily focused on traditional designs.

3. Rising demand in East Asia.
   In addition to existing demand in Western markets, Asian and Middle Eastern markets are exhibiting high demand. The top importer in Asia is Japan, followed by China and the Republic of Korea. National and international carpet associations have been established in East Asia – predominately in Japan – to promote high-value carpets to high-income East Asian consumers and businesses. Key drivers are the growth of cities, demand from hotels – which are increasingly catering to foreign guests – and increasing consumer appreciation for both traditional and contemporary carpets.

Table 1 indicates the main buyer requirements associated with key markets. The mandatory requirements reflect characteristics that must be satisfied before the product can enter the market, while the non-mandatory requirements reflect value-enhancing characteristics that can boost price and demand for the product.
**Table 1: Buyers’ requirements for carpets in key markets**

<table>
<thead>
<tr>
<th>Main market</th>
<th>Mandatory requirements</th>
<th>Non-mandatory requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>• Flammability standards (for large carpets)</td>
<td>• Colour, design, type of fibre and price are important attributes</td>
</tr>
<tr>
<td></td>
<td>• Labelling requirements (carpets must be labelled with the letter ‘T’; small carpets</td>
<td>• Colours: earth or natural tones are popular in the United States market</td>
</tr>
<tr>
<td></td>
<td>and rugs not meeting the standard must be labelled with the statement: FLAMMABLE)</td>
<td>• Kazaks and Chob Rangs in natural dyes would have a market edge</td>
</tr>
<tr>
<td></td>
<td>• General Certificate of Conformity: product complies with all applicable statutes,</td>
<td>• Contemporary designs such as gabbehs would have market potential*</td>
</tr>
<tr>
<td></td>
<td>regulations, rules, bans or standards of the United States Consumer Product Safety</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Commission</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Other requirements apply for certain types of carpets</td>
<td></td>
</tr>
<tr>
<td>EU (Germany, Italy,</td>
<td>• Product safety: under the General Product Safety Directive</td>
<td>• Europe: sustainability and certification are important to buyers. For carpets, social</td>
</tr>
<tr>
<td>France)</td>
<td>• Labelling – specific rules for textiles: e.g. fibre composition</td>
<td>aspects such as child labour are major issues. Consumer labels such as GoodWeave, STEP,</td>
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<td></td>
<td>• Chemical substances: azo dyes are illegal</td>
<td>and Care and Fair are important</td>
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<tr>
<td>United Arab Emirates</td>
<td></td>
<td>• Germany: colour, design, type of fibre, and price are important attributes</td>
</tr>
<tr>
<td>(UAE)</td>
<td></td>
<td>• Germany: Chobis in natural dyes, as well as contemporary carpets in both bright and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>earth tones, have market opportunities**</td>
</tr>
<tr>
<td>Turkey</td>
<td>• Exporter Registry Form</td>
<td>• Popular trends: modern designs, simplicity and minimalism</td>
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<td></td>
<td>• Certificate of Origin (English)</td>
<td>• Construction companies, in coordination with architects, decide and buy the flooring for</td>
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<td></td>
<td>• European Conformity marking, as required under the Construction Products Directive</td>
<td>newly built flats in Turkey3</td>
</tr>
<tr>
<td></td>
<td>(89/106/EEC)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Textile and apparel products made available on the market must be labelled or marked</td>
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<td></td>
<td>to indicate fibre composition</td>
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<td></td>
<td>• Household Goods Quality Labelling Act: carpets for household use require labelling</td>
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<td></td>
<td>including composition of fibres, name and address or telephone of the party responsible</td>
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<tr>
<td></td>
<td>for labelling (see Textile Goods Quality Labelling Regulations)</td>
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<tr>
<td></td>
<td>• Act on Control of Household Products Containing Harmful Substances</td>
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<tr>
<td></td>
<td>• Fire Service Act: flame-retardant standards (for carpets used in facilities such as</td>
<td></td>
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<td></td>
<td>theatres and hotels)</td>
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</tr>
<tr>
<td></td>
<td>• Second-hand Articles Dealer Act (If carpets are antiques)</td>
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<tr>
<td>Japan</td>
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<td>• Rising importance of eco-friendly carpets4</td>
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**SUPPLY TRENDS: REGIONAL POWERHOUSES POSE SIGNIFICANT COMPETITION**

The global supply of knotted hand-made carpets (including both traditional and contemporary designs) is dominated by the Islamic Republic of Iran, Pakistan, India, Turkey, China and Nepal.

The Islamic Republic of Iran is the leader in hand-made traditional carpets and holds a premium position in the market due to well-differentiated, high-quality products. Exporters usually sell pieces directly to retailers, and the brand equity commanded by Iranian carpets has allowed the market to be driven by supply rather than demand. The market has so far readily consumed what the country has supplied.

The sector is currently under strain due to sanctions applied after 2011, leading to the loss of the United States market. Coupled with inflation and in-country shortages, the price advantage of Iranian carpets will decrease to some extent. Although Iranian designs and quality will continue to be recognized by markets based on the established brand, the...
differentiation advantage will also decline due to the lack of design innovation. The erosion of competitiveness has also occurred to some extent due to the Iranian Government’s focus on oil-led growth.

In spite of these challenges, growth continues for Iranian carpets in the European, Russian Federation and Middle Eastern markets, and they still occupy the leading global position in terms of overall competitiveness.

**Pakistan** is the world’s second-largest exporter of hand-knotted carpets of both domestic and Afghan origin. The latter are mainly chobi carpets that constitute approximately 60% of Pakistan’s carpet production. A major concern for the Pakistani hand-woven carpet sector is the repatriation of master Afghan weavers. Unlike India or China, Pakistan is less able to upgrade to modern machine-assisted carpet production because of deficiencies in power supply.

The area where Pakistan has an advantage over many of its competitors is the ability to maintain strong links to buyers in key international markets. With a tight feedback loop between markets and the domestic carpets sector, Pakistani exporters are able to swiftly adapt to changing market requirements. It is expected that they will continue to maintain a strong level of differentiation through production of chobi lines; however, the cost structure may need to adapt to the point where Pakistan loses some cost advantages relative to competitors.

**India** benefits from concerted Government support and an energetic community of weavers, processors and suppliers, which enables the sector to supply a variety of products and customized production. These factors have made India a dynamic supplier of carpets. In recent years, India has made the shift towards contemporary designs, necessitating an upgrade in production and processing techniques. India is seen as a flexible supplier that can quickly respond to changes in consumer preferences.

With the introduction of machine-supported production, India is increasingly moving towards mid-to-low margin, high-volume production. To respond to recent demand, India has increasingly supplied chobi carpets, which has created competition with traditional chobi producing countries.

Despite a Government regulation increasing weavers’ wages, new industries in carpet-making districts have been attracting labour away from established carpet producers. Additionally, the focus on high production in the mid-to-low segment means that India’s price advantage for the hand-woven segment will decrease to some extent, while differentiation will increase with the adoption of technology and product development.

The **Turkish** carpets sector is undergoing a period of introspection. The sector supplies nearby European countries and is built on a reputation for market responsiveness. A mix of challenges including retiring weavers and migration of human capital to other sectors has hurt the sector, which formerly had a high degree of product differentiation as well as cost advantages. It is likely that this position will be seriously weakened in the near future.

In **China**, central Government planners have prioritized machine-made over hand-woven carpet production. Production has shifted to machine-made, tufted products which enjoy a strong reputation for good quality at affordable prices. This emphasis, combined with rising wages, means that China has become less competitive in the international hand-woven market, to the extent that it is now an importer in this segment. Of all competitors, China exhibits potential for a complete withdrawal from the hand-made, knotted segment, leaving the door open for India and others to fill the vacuum.

**Nepal** is a relative newcomer in the hand-woven carpet segment, having started in the 1950s with the influx of Tibetan refugees who specialized in contemporary carpets. Exporters have been able to establish relationships in the lucrative United States and German markets, and products are generally well regarded. The ‘Made in Nepal’ brand, combined with the Tibetan influence, has led to an overall profile that is appealing to buyers. Western buyers – initially sourcing from Nepal due to disruptions in supply from the Islamic Republic of Iran and Afghanistan – now buy Nepali carpets due to responsiveness and quality as well as the established brand.

The sector is facing significant challenges, though. Product development is stagnating due to loss of human capital, government indifference and proliferation of machine-made Chinese carpets in the local market. It is expected that rising competition from neighbouring India in the contemporary carpet segment might push Nepal into the higher margin segment of the market. The competition with India and Pakistan suggests a need for product differentiation, although it is not clear if Nepal will be able to adapt as swiftly as in the past.

| Source: Leahy, Rob (2013). |

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**Figure 4: Price versus differentiation in the global carpet market**

<table>
<thead>
<tr>
<th>Excellent</th>
<th>Price vs Differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran</td>
<td>Turkey</td>
</tr>
<tr>
<td>India</td>
<td>Afghanistan</td>
</tr>
<tr>
<td>Nepal</td>
<td>Pakistan</td>
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<tr>
<td>China</td>
<td></td>
</tr>
</tbody>
</table>

Relative position today  - Likely position within 5 years
VALUE CHAIN ANALYSIS

Carpet production

Afghanistan is the home of traditional, high-quality hand-made carpets. According to MoCI, over 1 million Afghans work in the production of carpets, while others work in related industries such as wool production, cutting, washing and rug design. There are some large modern carpet production hubs supported by the Government; however, home-based producers are responsible for around 95% of total output. The industry is a great driver of female employment.

Most carpet weaving takes place in rural Afghanistan, while the final product is predominantly sold in urban centres. The majority of Afghan production occurs in the northern part of the country, which is the home of traditional and modern carpet design. The carpet production belt in the north, including Mazar-e-Sharif, Sheberghan, Andkhoy, Aqcha and Maimana, accounts for almost 70% of Afghan carpet output. Kabul, which is the home of traditional carpet showrooms, is a relatively new centre of production. Herat faces declining demand and falling prices, as well as higher costs of labour and inputs. Production in this region has therefore dropped to approximately 5% of total production.

Afghan carpet weaving has traditionally been a cottage industry. Today, some steps in Afghan carpet production previously done by hand are being undertaken outside the country using cheaper, machine-based methods. For example, wool processing (washing, spinning, dyeing) happens more and more in Pakistan and the Islamic Republic of Iran. Foreign wool (chobi, Belgian and Pakistani wool), which is imported and machine-made, dominates the Afghan wool market. The small portion of wool that is processed domestically is produced by hand methods rather than by machine. Chemical colours have gradually replaced traditional natural dyes. It is difficult to estimate how much wool preparation now happens outside Afghanistan and how much is machine-made.

A large quantity of high quality wool is also exported to Pakistan while another share is delivered to weaving households. The quality, quantity and style of carpets depends on the instructions of the middlemen (called subcontractors or carpet traders) who are connected to large traders. Subcontractors also collect the carpets from weaving households. Middlemen provide a link between producers and exporters. They also control payments made to households and recruitment of weavers to execute the orders. Thus, subcontractors not only connect households to large traders but also create a barrier between producers and the market, leaving little room for weavers to negotiate wages.

Production of carpets in Afghanistan takes place in three distinct ways: profit-sharing, direct buying and selling by weavers, and subcontracting through carpet traders. Profit-sharing is more common in the Faryab market, while subcontracting dominates in Herat. Direct purchase is only found in the Faryab market.

In the case of profit-sharing, the traders provide wool to the weaving households. The wool is considered a loan. Upon completion of the carpet, the trader has the carpet appraised by other traders in the industry. Based on the agreed price, the trader pays the household 50% of the appraised value after deducting the cost of the inputs. The product then belongs to the trader to sell in the market.

Subcontractors also purchase directly from households. In this scenario, weavers have their own looms and enough capital to purchase inputs and produce carpets. Finished carpets are carried to the wholesale market. The price of the carpet is based on the subcontractor’s inspection.

The most common relationship between traders and weavers is subcontracting through carpet traders. The trader decides the design of the carpet, purchases the inputs and finds a weaving household to execute the design. After completion, the weaving household delivers the carpet and receives an agreed-upon payment.

Many weavers now organize in workshop spaces rather than working individually from home. This allows them to monitor quality and avoid design plagiarism, which has become more of a problem due to the globalization of the value chain.

The main production inputs include the following:
- Chemical dyes
- Vegetable dyes
- Cotton – used in carpet wefts, imported or domestically provided
- Carpet design – indigenous designs are provided domestically but foreign patterns are also used for modern rugs
- Silk – some high-end carpets are woven with silk, which gives a much softer and smoother touch. The availability of domestically produced silk is limited so demand is often met through imports
- Local sheep wool
- Chobi wool, Belgian wool and Pakistani wool – imported

The quality of a handmade carpet is measured and depends upon the quality of wool, the quality of dye and the knots weaved in 1 inch 2 of a carpet. The more the knots are woven, the heavier its volume and the higher its price. The cost of inputs ranges between 5% and 21% of carpet costs depending on the quality of wool and dye used for production.2 High quality dye is imported from Belgium and England. The dyes usually imported from Pakistan are because of being cheaper. Local markets produce natural dyes from pomegranate and herbs, the quality of which are excellent but are in short supply and expensive. Therefore, some dye colors are imported. Imported dyes however vary in quality and are uncertain if they give the right color and touch to the finished wool.

As with dyes, chemicals for cutting and washing is partly imported. Estimates show that 150 tons of caustic soda (sodium hydroxide) is imported from Pakistan on a monthly basis, 90% of which is used for carpet cleaning. The best quality caustic soda is produced in Lahore and Faisalabad, Pakistan.3 Access to high quality wool is crucial for the quality of the finished good. Approximately two thirds of wool used in the carpet sector is imported, which limits value captured in Afghanistan.4

Carpet Processing

Processing facilities recently opened in Kabul, Mazar-e-Sharif, Jalalabad and Herat. After carpets are woven under subcontracting agreements, traders collect them in rural areas and pass them to processors. Local processors cut, stretch, wash and finish the woven carpet. Due to cost efficiency and limited accessibility to domestic processing facilities, the majority of Afghan carpets are sent to Pakistan through Pakistani traders who are connected to Afghan middlemen. Sophisticated Pakistani washing, cleaning, cutting, brushing and packaging facilities are able to finish carpets with enormous cost efficiencies gained through economies of scale. However, carpets finished in Pakistan are often marketed as Pakistani goods, which damages marketing and branding of Afghan traditional rugs. Limited availability of financial resources, organizational capacity, access to chemicals and lack of expertise in cutting and washing has hindered the expansion of Afghanistan’s domestic processing capacity.

Distribution

Retailers and exporters do not directly interact with weaving households so the value chain is highly hierarchical and fragmented. At the top of the carpet industry hierarchy are exporters and large retailers, who are both large traders and final sellers of the product. Middlemen are both subcontractors and traders themselves, collecting carpets from weaving households all over the country before passing them on to processors or larger traders connected to end markets. Estimates show that there is USD 100 million in revolving capital within the industry, with a good proportion of Pakistani investments (the capital includes wool, dye, woven and unwoven carpets, advances, equipment and frame, receivables and cash). Some 5,000 companies and brokers are involved, of which up to 200 are registered exporters (2015). Of these, 90% work for Pakistani traders.

A limited number of Afghan traders have direct linkage and access to the buyers in the international destinations (except for Pakistan). Only a few exporters have showrooms, warehouses or logistics partners in the global markets. Carpets are exported, in most cases, when orders are received or in exhibitions.

Domestic Market

Unfinished and finished carpets enter the domestic market through retailers, who get their product through middlemen. Some weavers and middlemen sell unfinished carpets directly on the Afghan market at a lower price. Around 70% of demand in the domestic market is for the traditional Chob Rang.

International Market

After carpets woven in Afghanistan enter Pakistan for finishing, foreign retailers deliver the finished carpets to the international market, informally using the “Bilty” transport system. It is estimated that at least 75% of the total exports are not recorded, a majority of which are destined to Pakistan. Pakistani traders positioned at the border receive carpets from middlemen and sell them on in the Pakistani or international markets. After final processing and transportation, the final sales price in Peshawar is US$800–US$900 per six square metres. In 2015, Afghanistan exported approximately US$90 million of rugs in value. Exact numbers are not accessible as it remains unclear how many Afghan carpets cross the border to Pakistan, from where carpets are sent to other international markets. Top export destinations, besides Pakistan, are the United States, Germany and Canada. These markets are showing more and more interest in Afghan carpets. Based on their high reputation,

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2. – Ibid.
3. – Harakat Investment Climate Organization (n.d.) Industrial Analysis Project, Joint Research Program (co-led by J. Joya and A. Ahmady)
4. – Afghanistan, Ministry of Commerce and Industries (2011)
In some cases, low quality hand-woven carpets imported from China and Iran are exported to international markets under the label of “Afghan Carpet,” which harms the market reputation of Afghan handwoven carpets.

**Box 1: Types of carpets produced in Afghanistan**

Three types of hand-woven carpets are produced in Afghanistan—traditional Afghan, Chob Rang and the kazak style (to a lesser extent).

- Traditional Afghan carpets are based on indigenous designs and offer a point of differentiation in the international market. The market demand for this type is limited but constant.
- *Chobi* carpets are primarily commissioned in Pakistan and sold as Pakistani exports. The carpets are woven in Afghanistan and in refugee camps in Pakistan. Despite the inherent loss of value for the Afghan sector after the carpets pass through to Pakistan, this trade relationship, even if unbalanced, has served to sustain the sector in Afghanistan.

As indicated in figure 5, the main area of carpet production lies in North Afghanistan, while Kabul has emerged as an important production centre for Chob Rang carpets. Kabul is the main sales point for carpets sold in Afghanistan. While production and domestic sales figures are not readily available due to data-collection challenges, it is estimated that domestic sales are stagnant due to the sluggish economy, especially for high-end carpets.

**Figure 5: Main areas of carpet production in Afghanistan**

- **North**
  - The carpet belt in the north is estimated to account for almost 70% of Afghanistan’s output.

- **West**
  - Having faced declining demand, falling prices and higher costs (of both labor and inputs), the carpet cluster in the Herat area is under threat.
  - Estimated to account for 5% of total production.

- **Center**
  - Production in the Kabul area is mainly the newer variety of Chob Rang carpets, with a generally higher portion of men weaving than in other regions.
  - Estimated to account for 25% of total production.

Source: All production estimates by Afghan Carpets Exporters Guild, Mazar office. AA; OTF Group Information; 2005

Source: OTF Group (2005); Afg
AFGHANISTAN’S NATIONAL EXPORT STRATEGY / CARPETS SECTOR 2018-2022

Current Value Chain

**Regions**
- The majority of Afghanistan production is located in the north: Herat, Andkhoy, Sheberghan, Aqcha, Maimana, Mazan-e-Sharif, Kabul
- Kabul is a relatively new centre of production, focusing on Chob Rang carpets
- The opening of cut and wash facilities in Kabul, Mazar, Jalalabad and Herat

**Top Export Destinations**
- Pakistan USD 77.6 million
- USA USD 4.9 million
- Germany USD 926,000
- Canada USD 686,000
- Turkey USD 534,000
- France USD 397,000

**Imports of Input**
- Silk manufacturers
- Wool manufacturers
- Chemical and natural dye manufacturers

**Domestic Input**
- Design
- Cotton
- Chemical dye
- Vegetable dye

**Weaving Households**
- Profit-sharing
- Direct purchase
- Subcontracting through carpet traders

**Middlemen: Subcontractor / carpet trader**
- Processors
- Cutters
- Repairman
- Designers
- Stretchers
- Finishers
- Washers

**Producers**
- Cutters
- Repairman
- Designers
- Stretchers
- Finishers
- Washers

**Retailer**
- Exporter

**Domestic Market**
- Chob Rang comprises 70% of traded volume by value
- Afghan traditional carpets

**Pakistan & Iran**
- Machine-made
- Profit-sharing
- Wool manufacturers
- Chemical and natural dye manufacturers

**Belgian Wool**
- Chemical and natural dye manufacturers

**Pakistan Wool**
- Chemical and natural dye manufacturers

**Cob Rang Wool**
- Chemical and natural dye manufacturers

**Domestic Input**
- Design
- Cotton
- Chemical dye
- Vegetable dye

**Domestic Market**
- Domestic Market
- Re-import

**International Market**
- International market
- Other International Markets

**Inputs**
- Processors
- Large traders
- Retailer
- Exporter

**Production**
- Processors
- Cutters
- Repairman
- Designers
- Stretchers
- Finishers
- Washers

**Assembly**
- Large traders
- Retailer
- Exporter

**Processing**
- Processors
- Cutters
- Repairman
- Designers
- Stretchers
- Finishers
- Washers

**Distribution**
- Large traders
- Retailer
- Exporter

**Domestic Market**
- Export USD 90.2 million

**National Component**
- Domestic Input
- Processors
- Domestic Market

**Mixed Component**
- Imported Input
- Machine-made
- Profit-sharing
- Domestic Market

**International Component**
- Other International Markets
- International market
- Re-import

Figure 6: Current value chain

[AFGHANISTAN’S NATIONAL EXPORT STRATEGY / CARPETS SECTOR 2018-2022]
The market structure of the carpet sector resembles a monopsony, where a few large traders are at the top dominate the sector. These dominant players are almost exclusively male and have sufficient capital and networks to carry on trade. Social and financial barriers to entry contribute to non-competitive behaviour in carpet trading. Moreover, trading networks are often organized along ethnic lines, which in practice further excludes outsiders. This is particularly evident in large-scale trade across specific borders where certain ethnic groups dominate commerce due to strong relationships in the countries with which they conduct business.

A strong hierarchy characterizes the Afghan carpet value chain, as large traders and exporters do not interact directly with carpet producers. As a result, large traders usually do not have detailed information on the circumstances of carpet production, including wages paid to weavers and incidence of child labour during production.

In Afghanistan, carpet production and trade is mainly done by subcontracting weavers through carpet traders. The role of subcontractors is thus key in the value chain. They provide a link between exporters, large traders and producers, while commonly working with a network of carpet weavers. In this production ecosystem, the subcontractor is responsible for identifying and contracting the weaver, finishing the carpets and then selling them. As finishing services are scarce in the country, Pakistan-based middlemen are often the subcontractors. The responsibilities of the subcontractor may include sourcing inputs (which often includes the loom) and designs. Thus, if the carpet is destined for the international market, the information regarding size and patterns is transmitted from the buyer to the subcontractor, who passes it on to the weavers. Meanwhile, when carpets are destined for the domestic market, it is the subcontractor who decides the design of the carpet and specifies the desired features to the weavers.

When looms are rented out by the subcontractor, the rental amount is deducted from the wages of the producers or the final price of the carpets. Loans to producers are not limited to renting looms. Additional debts may be accrued in the form of provision of other inputs and advance cash payments. This means the carpet weaver has limited opportunities to engage with other subcontractors. They are frequently trapped in cycles of debt and tied to subcontractors until the carpet is sold.

Although some bargaining takes place, there are no fixed prices for the final products. Lack of knowledge about the final price is a disadvantage for carpet producers. Subcontractors have the power to decide the payment to the household based on their valuation of the carpets. As producers work in isolation and therefore have limited access to pricing information and other subcontractors, their bargaining power is restricted. This situation is aggravated by the large number of weaving households in the country, which creates pressure on weavers to maintain productivity in order to preserve business relations with their subcontractors.

The second most common practice in carpet production and trade is profit-sharing. In this context, the trader provides the raw materials to the producers and then collects the carpet on completion. This method occurs when weaving households lack sufficient capital to work independently of credit. The profit of the carpet is afterwards divided between the producer and the trader. In this arrangement, the trader pays approximately 50% of the final price to the weavers, deducting the price of inputs. The profit-sharing relationship has become more equitable for weavers since it first started in the 1980s, at which time profits were split 60:40 in the trader’s favour.

The third and least frequent practice of production and trade is direct marketing of carpets by weavers. In this case, the heads of weaving households themselves sell their carpets in the wholesale market, where the price is bargained between traders and weavers. In this scenario, weavers have their own looms and sufficient capital to purchase inputs, in addition to having the means to sustain their households during the production. This method is therefore the least common and the number of independent carpet producers is in decline, as capital accumulation is extremely difficult for producers. Notably, in these cases, producers are able to decide the design and quality they wish to produce.

In the case of both subcontracting and profit-sharing, debt – cash or in-kind – is accrued by carpet producers. Further, loans are necessary for carpet production and they stimulate trading of inputs. They are short-term debts, which depend on the duration of the production timeline and trading of the final product. In both scenarios, the main lenders to producers are either subcontractors or traders. This is a result of the limited availability of formal credit tailored to the needs of weavers.

The hierarchical nature of the carpet sector market structure thus allows for a large number of small-scale weavers to be locked into trade with subcontractors and traders through debt cycles. Moreover, even when carpet producers are independent and thus able to produce without incurring debt, they still have limited access to large traders in international markets. At the same time, long-standing trading networks (often forged on the basis of ethnicity) restrict the ability of new actors to enter into large-scale trading in a sector dominated by a few players at the higher stages of the value chain.
Three large stages are identified in carpet production: pre-weaving, weaving and post-weaving processes. Pre-weaving refers mainly to raw wool processing. Weaving is the actual production of the carpet. Post-weaving refers to finishing processes such as cutting and washing the woven carpets.

Pre-weaving operations require a variety of inputs such as wool (to be converted to yarn), chemical and/or natural dyes, and spinning machines, in addition to labour, electricity and water. An essential raw material is wool. A variety of sheep breeds are available in Afghanistan but certain breeds are specifically used for wool-to-carpet production. Furthermore, several types of carpets produced in Afghanistan – for example, gabbeh, Chob Rang and kazak – are created based on the tribal affiliations and/or regions of the weavers.

Certain styles are typically produced with specific types of wool, due to their availability in producing regions and the different qualities they possess. For example, wool originating in the province of Ghazni is considered ideal for carpet weaving. It is often described as ‘soft-hard wool’ and its availability results in a competitive advantage for the Afghan carpet sector. Moreover, Ghazni wool is used to produce the Chob Rang carpet, which is highly esteemed in international markets. Among the sheep varieties producing Ghazni wool, there is the Ghalaji breed, found in the southern provinces of Ghazni and also in Paktia, Zabul and Kandahar.

When the Ghalaji sheep is crossbred with merinos, it results in Baluchi sheep, which are found in Nimroz, Helmand and Kandahar provinces. The Baluchi breed produces good quality carpet wool. Both Ghalaji and Baluchi wools are used to produce the Afghan Baluchi (also Beluchi) carpets and rugs including, notably, the Baluchi prayer rug. Further, Afghan weavers traditionally use the Karakul breed to produce carpets such as the Khal Mohammadi. Finally, the Turki breed is also used for wool-to-carpet production. This breed, found in the western provinces of Afghanistan, creates one of the best-quality wools for carpets.

Although there is domestic production of wool, this input is often imported from neighbouring countries such as Pakistan and the Islamic Republic of Iran, since years of conflict and drought, overgrazing of lands and inadequate livestock management have significantly reduced the livestock population in Afghanistan. Approximately 40% of the wool used in carpet weaving is domestically produced. Certain wool is imported from countries such as New Zealand and Belgium. This wool is considered high-quality wool and appreciated by both the consumer and the weaver. For example, Belgian wool is used to produce Khal Mohammadi carpets. However, given the high transportation costs, wool from the Islamic Republic of Iran and Pakistan is preferred by traders supplying inputs to weavers, despite its poor reputation.

As outlined above, the wool for carpet production is either domestically produced or imported. When the wool is produced in Afghanistan, the following processes take place either in the country or in Pakistan and the Islamic Republic of Iran. In terms of pre-weaving processing, the first steps are wool scouring and then spinning to turn the wool into yarn. Afterwards, the yarn is dyed with chemical or natural dyes.

Step 1: Wool scouring removes non-wool contaminants such as grease. Water and some type of detergent are necessary to carry out this process. Wool scouring is carried out on a small scale in Afghanistan, which has only a few operating factories dedicated to wool scouring. For this reason, raw wool collectors frequently send their products to Pakistan for processing.

Step 2: Traders often contract with local households to spin the wool into yarn, a process typically performed by women. Since they use hand-spinning methods, their output is small.

Step 3: After spinning, yarns are dyed with either chemical or natural dyes. Chemical dyes are now frequently used because they are less expensive and the process of dyeing is faster. In the past, only traditional vegetable dyes were used in Afghanistan. Vegetable dyes continue to be used for the production of carpets but only on a minor scale. For example, they are used in the production of Chob Rang carpets. In fact, Chob Rang means ‘wood colour’ in the Dari language, a reference to their natural colours. The colour yellow comes from the native plant isparak, a wild form of larkspur. Other natural dyes relevant for the sector are madder roots, indigo, tesu flowers, walnut bark and pomegranate rind.

Because there are few large-scale spinning and dyeing facilities in Afghanistan, traders usually import dyed wool yarn from neighbouring countries, particularly Pakistan and the Islamic Republic of Iran. Production and processing of wool is cheaper in these countries. For this reason, there is a significant reliance on imports, particularly from Pakistani suppliers, for the provision of essential pre-weaving inputs.

In Afghanistan, carpets are predominantly hand-made, traditionally using looms. Their hand-made quality is a distinguishing attribute that benefits the industry. As stated in the previous section, looms are either rented or owned by the weavers. The looms are divided into two types: horizontal...
and vertical. Horizontal looms are widely used in rural areas and by nomadic tribes, while weavers living in towns usually use vertical looms. Weaving is an intricate process that can take two to three months for a standard carpet of 2 x 3 m². The weaving of the carpet begins once the design pattern, also called the ‘map,’ is provided. Other tools used for weaving are metal hooks and carpet combs.

When the weaving is finished, the carpet is cut and washed before it is traded in the national or international market. The process of cutting and washing has a substantial weight in the value chain, as it represents roughly 30% of the value of the carpet. Washing the carpet requires certain chemicals, such as acetic acid and sulphuric acid, which are predominantly imported from Pakistan. However, they are difficult to source in light of certain import restrictions in Afghanistan related to their dual use for drug production. After the application of tariffs, the import of these chemicals increases the cost of cut and wash operations for Afghan carpet producers.

Furthermore, the number of cut and wash facilities within Afghanistan is insufficient to meet local demand. The machines and materials required for this process are not accessible to the majority of carpet producers because they work on a small scale. One Government measure to overcome this challenge has been the construction of industrial parks under the mandate of the Afghanistan Investment Support Agency. These industrial parks offer cutting and washing facilities to businesses. However, they are still limited in number. Moreover, certain issues have prevented companies from joining existing industrial parks, such as the high operating costs due to electricity and water shortages. In consequence, approximately 85–90% of producers are forced to send their carpets to Pakistan for finishing processes. Afterwards, many of these Afghan carpets are re-exported under a Pakistani label.


For these reasons, Afghanistan depends on Pakistan for the provision of critical inputs and carpet finishing, due to the scarcity of pre-weaving and post-weaving facilities and inputs. This severely inhibits the amount of value addition that can take place within Afghanistan, while also costing Afghanistan countless employment opportunities. Finally, as Afghan carpets are often exported from Pakistan, Afghan traders lose an opportunity to build relationships with international buyers and promote the Afghan carpet brand.

**EXPORT PERFORMANCE: A WINNER WITHIN A WEAK ECONOMY**

The total export value of carpets from Afghanistan stood at US$8.6 million in 2016. This figure likely underreports exports of unfinished carpets to Pakistan, considering the rampant smuggling taking place along the Afghanistan–Pakistan border. For this reason, statistical statements in this section should be treated with caution.

Carpets are one of the most important export products from Afghanistan besides dried fruits and nuts, fresh fruits and handicraft products. In 2006, carpets represented 28% of Afghanistan’s export basket. Export of carpets accounted for 2% of Afghanistan’s export basket in 2016. The combination of products in Afghanistan’s export basket has remained similar over the past 10 years.

Figure 7: Afghan carpet exports in value, 2005–2016 (US$ thousands)


Figure 8: Export basket of Afghanistan (2006)


Figure 9: Export basket of Afghanistan (2016)

Most carpets exported from Afghanistan (89%) are hand-knotted carpets, which achieve the highest price on the international market. High-quality hand-made carpets based on traditional weaving methods have become increasingly rare in the international market due to the shift towards machine-supported production. Introduction of machines in the carpet industry made Afghan hand-made carpets an even more precious luxury good in the global market.
Other production subcategories in Afghanistan are woven or needle-punched carpets.

- The US and Germany were the top export destinations for Afghan carpets in 2006 and 2016
  - 2006:
    » Exports to the US: USD 4.6 million
    » Exports to Germany: USD 887,000
  - 2016:
    » Exports to the US: USD 4 million
    » Exports to Germany: USD 1 million

- Reports indicate that another major export destination is Pakistan
- Comparing export destinations in 2006 and 2016, data reveals that export destinations did not change much in the past 10 years
- Afghanistan exports carpets to traditional export destinations in Europe and North America
- The only new top export destination is Turkey, according to 2016 data
- Export to Asia and the Middle East are gradually increasing, which would diversify Afghanistan’s export destinations for carpets

UNSTEADY INSTITUTIONAL SUPPORT HAS LED TO A WEAKENED SECTOR

The development of the Afghan carpet sector is hampered by a lack of institutional support across the value chain. At the production stage, increased institutional support is required to finance enterprises to support business expansion. Quality management and certification services are crucial to allow Afghan carpets to enter high-end markets. Services that connect Afghan enterprises to international markets are particularly needed. The following section details specific functions that are lacking. These services range from in-market support to investment promotion in foreign markets focused on the carpet sector.

Moreover, the institutional landscape presents coordination challenges that hamper the limited support provided to the sector. For instance, the carpet standardization process suffers from a lack of interaction and coordination among relevant support institutions. Previous overlapping of services has led to side initiatives on standardization. Certification emanating from these side initiatives is not always accepted in international markets.

A SERIES OF CHALLENGES PREVENTING SECTOR GROWTH (THE 3C’S)

Key issues constraining the sector’s ability to compete, connect and change

The following section analyses sector challenges across three levels: business capabilities; institutional and trade support; and national environment, policy and regulations. Three dimensions of Afghanistan export competitiveness were analysed.

Compete: Issues limiting the sector’s capacity to compete in national and foreign markets. This includes challenges related to access to inputs, productivity, quality management, national infrastructure and compliance with standards, among others.

Connect: Issues restraining connectivity to suppliers, markets and clients. This dimension includes challenges related to market information, marketing, trade promotion, branding and trade agreements, among others.

Change: Issues limiting the sector’s capacity to change, innovate and tap into emerging trends. This dimension relates to challenges in accessing trained/skilled labour, institutional support to innovate, investment promotion, corporate social responsibility, and youth and women’s employment, among other issues.
As an industry of significant cultural, economic and social importance, the Afghan carpet sector offers significant potential for investment and export growth. However, challenges related to the sector’s limited post-weaving processing capacity, weak standardization of products, and poor links to international buyers all combine to prevent the sector from achieving its full export potential.

Compete

Limited availability of critical inputs for production and processing of carpets is a major drawback to the competitiveness of the industry.

Some challenges exist for the supply of inputs for both pre-weaving and post-weaving processes. A crucial limiting factor for the production of carpets is the scarce domestic supply of high-quality wool. Years of war and inefficient animal husbandry practices have damaged and disrupted wool production through the loss of grazing lands and diminished domestic breeds of wool-producing sheep. Consequently, most raw wool is imported, primarily from neighbouring countries, where materials are not pure, not graded, and frequently mixed with petroleum products. Quality control of imported wool should be strengthened.

Additionally, the scarcity of medium and large-scale factories producing yarn and increasing difficulty sourcing natural dyes create challenges for the supply of domestically produced dyed yarn, whether the dye used is chemical or natural. It is difficult to access chemicals for washing, i.e. acetic acid and sulphuric acid, due to restrictions on their commercialization which are linked to their dual use for drug production. The limited domestic availability and short shelf life of critical inputs for washing necessitate identifying alternative chemicals and/or methods to carry out these activities.

Limited processing infrastructure results in limited ability to add value within the country.

Lack of processing infrastructure is the main reason for limited processing capacity throughout the carpet sector value chain. Pre-weaving facilities such as large-scale spinning machines and factories to produce dyed yarn are insufficient to meet industry demands. The use of traditional, small-scale methods, such as hand-spinning wool, are time-consuming and therefore less efficient.

Another key challenge is the limited availability at the national level of cut and wash services for finishing. Facilities to dry carpets and store them in an environment that is controlled for temperature and managed for pest control are also needed. Extremely cold temperatures in certain regions compromise the drying and proper conservation of carpets. The root causes behind inadequate facilities are low levels of investment due to insufficient access to credit, complicated procedures for land acquisition, weak protection of property rights and poor management of industrial parks by the Government.

There are not enough industrial parks focused on the provision of common services and facilities for carpet producers. Greater availability of finishing services such as cutting and washing would be a major asset to the sector, given that the vast majority of small producers are unable to invest in such facilities individually.

Ability to compete in high-end markets is inhibited by lack of quality control and standardization of production.

Internationally, Afghan carpets compete against Pakistani, Indian, Iranian and Turkish mass-produced carpets. Although Afghan carpets have a high reputation internationally, lack of standardization and the irregular quality of final products mar the sector’s positioning and image in global markets. More efforts are required to build and consolidate an Afghan brand for carpets that becomes internationally recognized as synonymous with quality.

Although a system for quality certification of products exists, the fragmentation of production makes training producers on quality standards and effectively monitoring the risk that existing certification will become meaningless. Furthermore, existing certification has been created outside any legal framework (i.e. ACEG certification created outside the framework of ANSA), which further weakens quality control and carries the risk that existing certification will become meaningless.

Lack of transparency in the taxation system is an obstacle for sector operators.

Sector producers struggle with the lack of transparency in the Afghan taxation system. The lack of clarity sets the stage for administrative corruption. The taxation system needs to be streamlined and domestic investment in processing facilities encouraged through tax incentives, among other measures.
Compete: Limited processing capacity to scale-up production and to participate in higher-stages of the value chain reduces the competitiveness of the Afghan carpet sector

- Insufficient availability of critical inputs for processing (e.g., washing liquid: natural dye, yarn)
- Weak processing/storage infrastructure limits scale of/capacity to carry out value chain activities
- Insufficient standardization and weak system for quality certification of products
- Lack of transparency/arbitrary tax system
- At the institutional level, weak quality control and monitoring
- At the enterprise level, insufficient training and experience related to quality among weavers
- Limited institutional capacity to conduct control and monitoring (e.g., and infrastructure, technical staff)
- Difficult monitoring since production is home-based and fragmented
- Insufficient availability of/access to critical inputs for processing (e.g., washing liquid: natural dye, yarn)
- Insufficient supply of nationally produced yarn. Yarn is imported from Pakistan/Iran
- Insufficient availability of dyed yarn in Afghanistan, mostly imported from Pakistan
- Insufficient pre-weaving facilities to meet local demand (scarce/improved facilities for wool scouring, insufficient large-scale spinning machines, and large-scale factories to produce dyed yarn)
- Existence of few local post-weaving facilities (few cut and washing facilities at the national level)
- Year round production is difficult to achieve. The country has periods of very cold weather when it is difficult to dry carpets
- At the enterprise level, insufficient training and experience related to quality among weavers
- Lack of clarity/awareness about taxation system among sector enterprises and incidents of corruption
- Insufficient transparency (issues related to drug production)
- No large-scale spinning machines (use of hand-spun methods)
- Weak availability of small wooden spinning wheels
- Limited knowledge on the use of spinning wheels
- Insufficient large-scale factories to produce large quantities of dyed yarn (whether using chemical or natural dyes)
- Insufficient pre-weaving facilities to meet local demand (scarce/improved facilities for wool scouring, insufficient large-scale spinning machines, and large-scale factories to produce dyed yarn)
- Existence of few local post-weaving facilities (few cut and washing facilities at the national level)
- Year round production is difficult to achieve. The country has periods of very cold weather when it is difficult to dry carpets
- Commercialization restrained (issues related to drug production)
- Insufficient availability of critical inputs for processing (e.g., washing liquid: natural dye, yarn)
- Weak processing/storage infrastructure limits scale of/capacity to carry out value chain activities
- Insufficient standardization and weak system for quality certification of products
- Lack of transparency/arbitrary tax system
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- Year round production is difficult to achieve. The country has periods of very cold weather when it is difficult to dry carpets
- Commercialization restrained (issues related to drug production)
Connect

The ability of Afghan enterprises to connect directly to international buyers is inhibited by dependence on foreign value chain actors.

As explained in previous sections, carpet enterprises struggle to connect with international buyers because of the high dependence of Afghan weavers and traders on foreign finishing service providers and merchants, as well as foreign input suppliers.

Connections between Afghan carpet producers and international buyers have been lost as a consequence of products being finished and branded as the product of Pakistan, Turkey or whatever country performed the finishing process. Limited direct connections with buyers inhibits the ability of sector stakeholders to understand and adapt production to market requirements and also slows the growth of an Afghan national brand for carpet exports.

Producers have limited capacity to organize and initiate commercial relationships.

Weak organization among weavers and lack of business and marketing skills hinder opportunities for weavers to initiate direct marketing and develop expertise to compete in regional and international markets. Institutional support is needed to facilitate the participation of exporters in international trade fairs and exhibitions. Market intelligence (e.g. information on high-demand markets, trends in consumer preferences, etc.) provided to sector enterprises is weak and insufficiently disseminated across the value chain.

The national capacity to build a brand in foreign markets is hindered because many Afghan carpets are labelled as foreign.

As a result of the limited post-weaving facilities available in the country, a large share of Afghan carpet production (estimated to be around 90%) is sent to Pakistan for finishing and is subsequently branded as Pakistani. Inefficient border procedures, such as the lack of data collection on traded products, facilitates both smuggling and altering information about origin. The fact that many Afghan carpets are not labelled as ‘Made in Afghanistan’ creates major challenges in terms of building an Afghan brand and positioning that brand in foreign markets.

Not enough support is provided to Afghan exporters to create and maintain relationships with international markets.

More institutional support is needed to assist carpet producers to connect with international buyers and maintain commercial relationships. Given that many Afghan carpets are exported with a foreign label, it is crucial for Afghan exporters to introduce their products directly to global markets. Support is needed in the form of critical market intelligence on trends and consumer preferences in target markets, in order for sector stakeholders to be more responsive to buyer requirements. Given the strict hierarchical structure of the sector, more efforts are needed to disseminate market information to carpet producers through subcontractors and associations to support them in making informed strategic decisions. Additionally, carpet exporters need more support to enable them to participate in trade fairs and exhibitions, where they can sell their products directly and connect with buyers.

Severe infrastructure challenges and weak institutional ability to streamline the movement of goods across borders are major constraints to accessing distant markets.

Sector development also requires increased institutional support to facilitate the movement of goods across borders. Afghan carpet exporters struggle to access distant markets due to insufficient transportation and logistics facilities. At the same time, exporters are required by developed markets to offer more timely production and delivery.

Using ground transport routes through Central Asia is feasible for exporting to the European market but sea or air transport is required to access markets in North America and East Asia. However, air transport is exceedingly expensive and sea transport requires access to either Chabahar Port in the Islamic Republic of Iran or Karachi Port in Pakistan. Support institutions should strive to coordinate with neighbouring Customs authorities to streamline export clearance in cross-border trade, as cargo is frequently delayed and disrupted because of paperwork issues. Exporters face not only the challenge of excessive bureaucracy but also demands for informal payments to Customs officials. More efforts are also needed to negotiate lower shipping rates with international airlines, such as the memorandum of understanding signed with Turkish Airlines in 2015 (which was never implemented).
Figure 14: Problem tree – challenges to connect

Connect: limited links with international buyers owing to heavy dependency on foreign value chain actors

- Afghan enterprises reliance on foreign value chain actors
- Weak enterprise-level capacity to organize and initiate commercial relationships
- National capacity to build a brand in foreign markets is marred by Afghan carpets labelled as foreign
- Insufficient support to create and maintain relationships with international markets
- Poor transportation infrastructure and logistics limit the ability of exporters to store goods and ship to overseas customers

- Afghan enterprises reliance on foreign value chain actors
- Critical inputs such as dyed yarn are imported from Pakistan, tying Afghan weavers/traders to Pakistani merchants
- Loss of connection with international buyers due to Afghan products being finished and branded as foreign (Pakistan, Turkey)
- Weak marketing skills among Afghan traders
- Lack of organization among weavers to initiate direct marketing
- Post-weaving processes carried out in Pakistan enable adulteration of origin denomination
- Inefficient border procedures allow for smuggling of products (e.g., lack of information collection at the border)
- Weak market information services
- Limited market promotion
- Poor road infrastructure (routes via Central Asia are too slow for the European market and too costly for the North American market)
- No streamlining of export clearance in cross-border trade
- Insufficient transportation and logistics facilities
- Cargo is delayed and disrupted due to paperwork issues
- Lack of permanent business centres in client countries limit the ability to stock products in advance
- Lack of storage for finished goods in key international markets

- Insufficient ability of Afghan traders to market products directly via Internet
- Lack of opportunities to develop expertise to compete in regional and international markets
- Insufficient dissemination of market information in rural areas (e.g., trends, prices)
- Insufficient market intelligence provided to stakeholders (e.g., new markets, trends)
- Insufficient trade fairs and exhibitions for stakeholders to directly sell their products under the Afghan-made label
- Limited market promotion
- Weak market information services
- Insufficient support to create and maintain relationships with international markets
- Insufficient ability of Afghan traders to market products directly via Internet
- Lack of business/marketing skills
Change

Investment opportunities are poorly promoted.

Investment opportunities in the sector are not promoted and encouraged enough among potential national and international investors. National and foreign firms are also discouraged by security concerns and an environment of lawlessness. More efforts are needed to promote investment in, for example, cut and wash facilities, by offering not only attractive incentives and investment packages but also extra security measures to reassure investors.

Value chain segment | All segments
---|---
Severity | ● ● ● ● ○
PoA reference | Activities 2.1.4, 3.4.1

The ability of sector companies to innovate or expand is constrained by the weak offer of financial services to carpet producers.

Carpet producers require access to financing that is tailored to their needs. At present, Afghanistan’s commercial banks have poor incentives to provide loans to carpet producers, as they tend to borrow small amounts of money several times in one year, which is expensive for financial service providers. Land ownership issues also mean producers are incapable of providing collateral. In turn, lack of access to formal capital forces weavers to enter into cycles of debt with traders. This type of loan allows weavers to cover production costs but not to expand their businesses, as they are unable to accumulate capital.

Value chain segment | All segments
---|---
Severity | ● ● ● ● ○
PoA reference | Activities 3.5.1, 3.5.2

Limited access to land hinders sector expansion.

Availability of land is a major challenge in Afghanistan, limiting the development of consolidated production sites such as industrial parks. It hinders business expansion into additional processing activities such as the establishment of cut and wash facilities. The current system lacks clarity on property rights and land conflict resolution is weak. Moreover, land ownership is highly informal, as there is an almost complete absence of authentic title deeds.

Value chain segment | All segments
---|---
Severity | ● ● ● ● ○
PoA reference | Activities 2.3.1 to 2.3.2

Sector expansion, innovation and sustainability are constrained by the low availability of appropriately skilled labour.

Another fundamental area lacking institutional support is the introduction of sector-specific training in the formal education system. As a cottage industry, producers are trained in a traditional manner, with knowledge passed from generation to generation. The absence of skills training within the education system creates the risk of losing traditional knowledge passed down within families. Formal training would make higher standardization and scalability of carpet production possible. Lack of such training hinders improvements in production and product design.
Figure 15: Problem tree – challenges to change

Change: Constrained sector capacity to innovate and upgrade carpet production and tap into emerging trends

- Limited access to land hinders sector expansion
  - Limited investment in the sector
  - Limited access to land
  - Lack of clarity on property rights (land ownership, tenure)

- Limited range of designs and colours of carpets
  - Limited direct connections with international buyers to understand market requirements

- Weak capacity to adapt production to the requirements of the international market (design, colour are important for US and German markets)
  - Lack of confidence in investment protection system
  - Weak design expertise (designs come from Pakistan)

- Channels to transfer knowledge and skills of carpet production (i.e. weaving) are informal
  - Limited investment promotion
  - Weak enforcement of legal framework regarding child labour

- Security concerns
  - Health issues among weavers, for example, related to dust, are also important

- Difficult to retain skilled weavers (40% of experienced weavers have left the industry due to low salaries)
  - Weak training of carpet weavers in design, business skills and market intelligence

- Few efforts to retain skilled weavers
  - Weak investment protection system
  - Weak capacity to adapt production to the requirements of the international market (design, colour are important for US and German markets)

- Poor incentives to provide loans as producers borrow small sums several times a year which are costly to service
  - Lack of loans to carpet producers by commercial banks

- Insufficient computerized design centres
  - Limited direct connections with international buyers to understand market requirements

- Difficulty to retain skilled weavers
  - Lack of loans to carpet producers by commercial banks

- Early closure of carpet producers
  - Weak enforcement of legal framework regarding child labour

- Weak training of carpet weavers in design, business skills and market intelligence

- Limited direct connections with international buyers to understand market requirements

- Weak design expertise (designs come from Pakistan)

- Insufficient computerized design centres

Because the production is home-based in rural areas, it is difficult to train and create awareness of international standards on design and colors.
Skills to innovate in the sector, including design skills, will also become increasingly important to improve production and enhance product differentiation. Stronger links are needed between the private sector and educational institutions to ensure sector sustainability through the transmission of traditional weaving techniques to young people. Continuous coordination will enable carpet enterprises to rely on a skilled labour pool capable of meeting evolving market demands. Given the cottage nature of the industry, entrepreneurial training should accompany technical training.

The shortage of skilled labour is aggravated by difficulty retaining skilled producers as a result of low weaver salaries. Greater efforts also need to be made to promote employment of skilled migrant weavers returning from Pakistan.

<table>
<thead>
<tr>
<th>Value chain segment</th>
<th>Severity</th>
<th>PoA reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>All segments</td>
<td>● ● ● ● ○</td>
<td>Activities 2.2.1 to 2.2.7</td>
</tr>
</tbody>
</table>

[ AFGHANISTAN CARPET VALUE CHAIN: KNOTTY PROBLEMS ]
AFGHANISTAN’S DILEMMA: TO COPE OR THRIVE?

WHAT ARE THE OPTIONS?

The competition in both traditional and modern types of hand-woven carpets is stiffening. Externally, regional competitors such as India, the Islamic Republic of Iran, Nepal and especially Pakistan are better positioned in terms of resources and links than Afghanistan, and are better adapted to respond to global trends. Internally, the gears of the value chain are slowing down. Despite this precarious environment, there are strategic options that can be followed to rejuvenate the sector, as outlined below.

SCENARIO 1: (BASELINE SCENARIO)

Under this scenario, the dependence on Pakistan will continue to increase, resulting in steadily increasing value leakage at the inputs and processing stages, and deterioration of brand and export performance. The sector will continue its current operations, which are directed by Pakistani traders in Afghanistan/Pakistan who are closely connected to Pakistani export houses.

With the repatriation of large numbers of Afghan weavers from Pakistan, the pressure on the weaving community will increase. The middle-tier traders who typically contract with the weavers will have their negotiating position strengthened while the bargaining position of weavers will decrease, ultimately depressing wages and living conditions. In this environment, the inherently Afghan design skills and other factors that differentiate the sector will also deteriorate, sped up by anticipated migration of skills to other sectors.

A select few Afghan exporters with political and financial clout will continue to export to international markets; however, these will be vertically integrated islands rather than reflective of the overall sector. The sluggish pace of the domestic market will further drive focus on exports.

Over the medium-to-long term, the sector will lose its differentiation edge to a large extent, while becoming marginally more cost-efficient (and consequently more price competitive). Cost advantage will come at a price for the already depressed weaving community. Ultimately, the sector will suffer a decline apart from the few larger companies and will become a subcontractor for Pakistan. At that point, the fortunes of the sector will largely depend on the performance of Pakistan’s carpets sector.

SCENARIO 2: FOCUS ON THE TRADITIONAL CONTEMPORARY MACHINE-MADE SEGMENT

This scenario envisages a shift in production from the current cottage industry to an industrial base with a focus on a mid-to-high volume of carpets priced to compete with their Indian and Chinese counterparts.

The challenge with this scenario is multifaceted. First, the centralized focus that has driven the Chinese and, to a lesser extent, the Indian model will be difficult to achieve due to weak institutional capacity and with the focus of the Afghan Government on other priorities. There is also significant resistance to regulatory requirements to curtail child labour and to the imposition of minimum wages for weavers. Additionally, the essential equipment and technological upgrades required for this model would not be feasible for at least the next 5–10 years. A crucial success factor for this model is market responsiveness and this would take time to emerge. As a result, Afghanistan would not be able to compete with the industrial powerhouses of China and India with regards to machine-made carpets, even in the long term.

SCENARIO 3: FOCUS ON THE TRADITIONAL, HAND-WOVEN, HIGH-END SEGMENT, WITH HIGH DIFFERENTIATION

This scenario adopts a cautious yet comprehensive approach to examining the competitive drivers and challenges faced by the Afghan carpets sector in addition to the overall trends in the carpets segment. The Afghan carpets sector faces a complex dilemma regarding where to position itself in terms of price points and designs.

Proliferation of machine-made carpets from China, which typically do not compete based on quality, is taking place on the global market. Improved technology and productivity levels are also leading to better quality machine-made carpets. Afghanistan cannot compete with a low-price strategy because of high production costs stemming from a weak
business environment and dependency on imports. Also, any price reduction measures will put additional pressure on weavers, causing socioeconomic distress.

The high-end, hand-made, traditional design segment is ideally suited for Afghanistan in the long term. High-end carpets – especially traditional, hand-woven, natural wool carpets – have a constant and stable demand in the market, and their value can even increase over time. While the Afghan traditional design is essential to the sector, efforts must be made to cater to the contemporary design segment as well.

Figure 16: Price versus differentiation for scenario three

Source: Leahy, Rob (2012).

FINDING THE BALANCE THROUGH FOCUS ON TRADITIONAL, HAND-WOVEN, HIGH-END CARPETS

Scenario 3 involves retaining focus on traditional, hand-woven carpets while targeting the higher end of that market in terms of quality and price. The sector can aspire to and make strides in this direction during the Strategy time frame. To accomplish this, the following considerations must be kept in mind.

- Compete on the basis of quality and cater to the high-end market: Afghanistan cannot afford to compete on the basis of price due to inherent deficiencies in the production structure and business environment, and to avoid additional pressure on the weaving community. Rather, the future lies with highly differentiated products competing on the basis of quality and traditional/unique designs that appeal to high-end markets, for which there is ample potential.

- Mitigate leakage of value: As long as the inputs supply chain (machine and hand-spun Afghan wool, chemicals used in treatment, etc.) remains dominated by imports, the cost of production will remain high. This impacts the bottom line for exporters and ultimately exerts downward wage pressure on the most vulnerable actors in the value chain – the weavers. Similarly, significant value loss is
caused by the lack of cut/wash/dry facilities in the country, which is directly affecting the Afghan carpet brand in addition to decreasing export value.

Shifting processing back to Afghanistan, as well as producing more inputs domestically, will increase production as well as capturing value. By developing supply and value chains on the inputs and processing sides, the sector will reduce dependency on external sources, reduce costs and improve margins, while simultaneously strengthening the Afghan brand.

- Improve production volumes in absolute terms in order to make the sector competitive again. Increasing production volume will require policy adjustments to maintain decent wages and working conditions that will attract labour to the sector. It will also require improvements in technology and expertise. In addition, productivity gains would result from reducing isolated weaving operations and instead enabling greater collaboration between weavers, traders and weavers, and exporters and traders, among other relationships. This would involve enabling a mix of integrated models such as weaving cooperatives, shared service centres and industrial parks, while supporting traditional models in the short-to-medium term.

- Enable productivity gains through enhanced skills development and improved methods and models of pre-weaving, weaving and post-weaving activities. Productivity gains will be accompanied by socioeconomic dividends for weavers (women workers) and other stakeholders in the value chain. Limited innovation opportunities in neighbouring Pakistan will result in expanded opportunities for Afghanistan.

- Gradually develop competencies in the contemporary design segment. Competition in the contemporary segment from India, Nepal and Pakistan is high. Afghanistan will not be able to compete in the near term, as market links take time to be strengthened. Over time, Afghan carpet producers will be able to enter this market, primarily through lead firms that demonstrate success and serve as case studies for other companies. However, this is a long-term objective. Afghanistan is already competent in the Chob Rang segment, and this can be nurtured and expanded to contemporary design abilities in the future.

- Meet financing and investment needs: The sector is in dire need of private/public financing as well as working capital. This problem will need to be resolved before growth can occur. In the short term, donor or government sector funding will be required in addition to existing informal financing options. In the medium-to-long term, private sector commercial funding and buyer-financed working capital funding can take over.

- Improve developmental considerations: By improving the socioeconomic conditions of weavers, the majority of whom are women, and resolving to end the use of child labour, the sector will not only benefit from a socioeconomic and developmental perspective but also from the international access that certifications such as GoodWeave bring.

- Develop relationships with buyers and improve responsiveness to their evolving needs: Beyond maintaining quality and on-time order fulfilment, Afghan carpet exporters must be flexible in adapting to client needs and requirements. For example, if a wholesaler in the United States requests a particular design, the supply base must be flexible enough to cater to that request. This also ensures that forward integration can potentially take place, involving supply of working capital from a buyer based on relationship trust levels.

- Open air cargo corridors with India, and the US: Such corridors would provide an avenue for developing on-time delivery of goods to these markets and at the same time reduce dependence on Pakistan.

MARKETS: ULTIMATELY DEFINING THE STRATEGIC DIRECTION

The following analysis is divided into two broad phases: one related to the immediate, short-term perspective and the other to the medium-to-long term outlook, when it is expected that a significant portion of the NES and the sector PoA will have been implemented. This phased approach is aimed at alignment with the evolving capacities of the sector’s trade and investment support institutions and enterprises as NES implementation moves forward.

SHORT-TERM PRIORITIES (1–3 YEARS)

Short-term priorities are product–market combinations which are exporting well but could either: a) be better performing in existing markets with implementation of shorter-term improvements recommended in this Strategy; or b) be translated into quick success with promising markets through variations on successful products.
Domestic market

Afghanistan produces around 2 million square metres of carpets annually, of which the majority is exported to Pakistan, Europe, the United States and Asia. Some merchants have established direct contacts with Western importers and dealers to achieve higher prices.

Only a small portion of demand comes from domestic buyers. Domestic demand comes from high-income households, public facilities and hotels, mainly in major Afghan cities. Carpets are sold domestically in local bazaars, including traditional outlets and Kabul’s famous Chicken Street retailers. Carpet centres in Jawzjan, Herat, Nangarhar and Kabul, as well as showrooms in major Afghan cities, are the most important domestic distribution channels.

Pakistan

Pakistan is strategically important because it is the major export destination for unfinished Afghan carpets. It is estimated that more than 80% of high quality carpet produced in Afghanistan is sold to Pakistan on less attractive prices. The majority of exports to Pakistan are for value addition purposes rather than exports of finished goods. Pakistani traders in Afghanistan export the majority of Afghan handicrafts and have direct contacts with weaving households. Carpet producers mostly work with Pakistani markets, get raw materials from them, distribute the raw materials to the weavers, in many cases they get advances from the Pakistani traders and pay advances to the weavers.

Based on the tight trade relationship and existing ties to carpet production, the Pakistani market will continue to be an essential destination for Afghan carpets in the future. The difference will be that finished rather than unfinished carpets will be exported in the medium-to-long term, thus retaining value and brand equity for Afghanistan. In the short term, however, the current links through which Afghan weavers function as contractors will serve to keep the Afghan carpets sector buoyant, and therefore the link will remain important in the interim until sector capabilities are built.

In order to strengthen exports of Afghan carpets to the consumer market rather than for value addition purposes, the following considerations will be particularly important:

- Monitor the value addition of Afghan carpets and reimport to enhance branding under the Afghan name.
- Gradually substitute foreign value addition with domestic value addition in order to export finished instead of unfinished goods.
- Target niche markets in Pakistan and focus on export of unique, hand-made traditional carpets.

Europe (focus on Germany)

Germany is the host and organizer of DOMOTEX, the carpet sector’s primary international carpeting and flooring trade fair. The country has shown great interest in handmade carpets from Afghanistan and has established trade relationships with Afghan carpet exporters. As the host nation of DOMOTEX, Germany has a high regard for Afghan carpets. This was reflected when Afghan carpets won the Carpet Design Award – the ‘Oscar’ of the carpet industry – at DOMOTEX in Hanover in 2008, 2009 and 2014. According to United Nations Comtrade data, Germany imported US$926,000 of carpets from Afghanistan. However, since 2012 exports to Germany have declined 15% annually due to competition from the Islamic Republic of Iran, India and Turkey. Nevertheless, based on export experience, the high reputation of Afghan carpets is now recognized in neighbouring European markets such as France, the United Kingdom of Great Britain and Northern Ireland, Norway, Italy, Belgium, Switzerland and Spain. The European market thus brings the best opportunities for market diversification in the short run. Europe reports overall stable demand despite the decline in exports to Germany.

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* Based on Direct Data on Comtrade as Mirror Data is not available in the Statistics. Source: Trade Map (2017).

8. Based on Mirror Data on Comtrade, 2016
In 2016, the EU imported around 43% of the total value of world carpet imports, which makes the region the largest carpet consumer. The European market is an important export destination due to its recognition of Afghan carpets as a high-end product, along with the market’s willingness to pay high prices for hand-made, high-quality products. Afghan carpets tend to achieve higher prices in European markets, where prices start from US$250 per square metre. Many households, as well as hotel chains, restaurants and other facilities, demand traditional and decorative Afghan carpets. Afghan carpets are mainly distributed through specialized carpet retailers in large European cities as well as wholesalers trading oriental carpets. Many wholesalers, such as Akbar Trading GmbH, or AWT Trading GmbH, are located in Hamburg, Germany, and act as a pipeline to the European market. In addition to the long-established distribution channels, online supply companies have started to emerge as another popular source for distribution.

To maintain recognition of Afghan carpets in the European market and compete against other oriental carpets, the following considerations will be important:

- Establish the Afghan carpet as a hand-made, high-end brand to compete against machine-made, cheaper carpets from other countries.
- Follow product safety standards under the General Safety Directive and improve labelling of fibres and chemical substances.
- As quality, origin and social issues are important to European buyers, attach certificates assuring, for example, that child labour was not used in production (labels such as GoodWeave, STEP, Care & Fair).
- Follow design trends in this dynamic market and update designs, colours and type of fibre frequently, especially when targeting the German market. » Chobi rugs in both bright and earth tones showed high market opportunities.

<table>
<thead>
<tr>
<th>Target market</th>
<th>Market segment</th>
<th>Distribution channel</th>
<th>Afghan carpet exports 2016 (US$)</th>
<th>Annual growth of sector imports 2012-2016 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Private households, hotels, restaurants, and other facilities</td>
<td>Wholesalers, retailers</td>
<td>926,000</td>
<td>-15</td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
<td>397,000</td>
<td>71</td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td></td>
<td>208,000</td>
<td>34</td>
</tr>
<tr>
<td>Norway</td>
<td></td>
<td></td>
<td>110,000</td>
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</tr>
<tr>
<td>Italy</td>
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<td></td>
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</tr>
<tr>
<td>Belgium</td>
<td></td>
<td></td>
<td>72,000</td>
<td>-/-</td>
</tr>
<tr>
<td>Switzerland</td>
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</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
<td>70,000</td>
<td>2</td>
</tr>
</tbody>
</table>

Box 2: Export potential in selected European markets

The ITC export potential assessment revealed that Switzerland is an interesting market for Afghan carpets. The market has hardly been explored yet, as over 85% of the full export potential remains unrealized. Afghanistan has a small tariff advantage in the Swiss market. The unit value relative index is 0.9, indicating that Afghan carpets are imported at a lower price than carpets from competitor countries. The Swiss market is expected to grow over the next few years. However, Afghan carpets need to undergo inspections and seek special authorization, register and obtain an export certificate for the Swiss market. If Afghanistan is able to overcome this hurdle, Switzerland is a high-potential market.*

Figure 17: Export potential in Switzerland

Switzerland: HS 570110 – Carpets and other textile floor coverings, of wool or fine animal hair, knotted, whether or not made up

Untapped Export Potential

<table>
<thead>
<tr>
<th>UNTAPPED EXPORT POTENTIAL</th>
<th>DEMAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 470 tsd</td>
<td>2020</td>
</tr>
<tr>
<td>13%</td>
<td>USD 25.1 mn</td>
</tr>
<tr>
<td></td>
<td>2011-2015</td>
</tr>
</tbody>
</table>

Applied Tariff

| Afghanistan: 0% |
| Ø other suppliers: 1% |
| Tariff advantage: 1pp |

Market Entry Requirements

- Custom inspection, processing and servicing fees
- Special authorization requirement for SPS reasons
- Product registration requirement
- Certification requirement
- Inspection requirement

United Value

<table>
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<th>Relative index: 0.9</th>
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Afghanistan: 0%
Ø other suppliers: 1%
Tariff advantage: 1pp


* ITC (2017) - Yvan Decreux, Maria Del Mar Cantero and Julia Spies: Reconnecting Afghanistan to global markets – An ITC assessment of export potentials and trade obstacles.
North America (United States)

Exports to the United States increased from US$2.9 million in 2012 to US$5.0 million in 2016. Demand rates indicate that exports have the potential to increase to US$40 million. Afghan carpets first became popular as a souvenir brought home by returning American soldiers and the Afghanistan/United States Carpet Conference held in Dubai in 2012 contributed to the popularity and reputation of Afghan carpets in the United States. Many Afghan carpet companies have already established strong ties and even opened showrooms and trading offices in the United States. To increase the reputation of Afghan carpets, there are even companies such as Ariana Rugs that issue licences for certified child-labour-free rugs made in Afghanistan. Such initiatives significantly contribute to export opportunities for Afghan carpets, as reflected in the increasing export value to the United States. Looking at the last five years, the United States has shown a positive trend in carpet imports, with an annual growth rate of 7%. In 2016, Afghan carpet exports to the country reached a remarkable US$5 million.

Similar to the European market, primary North American market segments include residential households, hotel chains, restaurants and other facilities. Carpets exported to the United States are usually sold at a cheaper price (average US$150 per square metre) than in the European market, as not only very high-end products but also medium-quality carpets find buyers in this market. Specialized carpet retailers and wholesalers trading in oriental carpets serve as the main distributors of Afghan carpets in the country. The majority are located in the San Francisco Bay area. In addition to established distribution channels, online sites have started to emerge as another popular way to access Afghan carpets.

To penetrate the United States market, the following considerations will be important:

- Meet flammability and labelling standards for large carpets.
- Consider the General Certificate of Conformity, which ensures that a product complies with all applicable regulations and standards of the United States Consumer Product Safety Commission.
- Follow colour, design, type of fibre and price trends, as these are important indicators for exports:
  - Kazaks and Chob Rangs in natural dyes of earth and natural tones have market edge.
  - Contemporary designs such as gabbehs show market potential.

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<tbody>
<tr>
<td>United States</td>
<td>Private households, hotels, restaurants, and other facilities</td>
<td>Wholesalers, retailers</td>
<td>5 million</td>
<td>16%</td>
</tr>
</tbody>
</table>


MEDIUM-TO-LONG TERM (+3 YEARS)

The markets listed in the short-term section above also have export potential in the medium-to-long term, unless specified otherwise. However, additional market research, product development and Strategy implementation would be required and is unlikely to be completed in less than two years.

Japan

Japan is showing increasing interest in oriental rugs, including Afghan carpets. A select few leading Afghan firms have started to establish a foothold in Japan. Japanese carpet importers have also tested imports of Afghan hand-made products. The majority of Afghan carpets reach Japanese buyers through wholesalers and retailers based in Tokyo who have direct contacts with Afghan export traders or carpet enterprises. The market for Afghan carpets in Japan is currently small; however, there are significant opportunities. Japan imported US$569 million in carpets in 2016, compared with US$520 million 10 years ago. Afghanistan has been increasing its export share in Japan with an annual increase of 11% since 2012, with exports reaching US$28,000 in 2016.

By establishing further ties with the Japanese market, Afghanistan has a great chance to increase its exports to Japan in the medium term. The market includes not only high-income buyers in private households but also major hotel chains, shops, boutiques and restaurants.

Most carpet retailers in Japan offer online sales, which could be expanded for the East Asian market. Additionally, strengthening visibility through participation at trade fairs in Japan would help to establish the reputation of Afghan carpets in Asian markets.
To penetrate the Japanese market, Afghan carpet exporters should consider the following:

- Respect the Household Goods Quality Labelling Act for carpet sales for household use, which requires labelling the composition of fibres as well as the name, address and telephone number of the party responsible for labelling.
- Align with the Textile Goods Quality Labelling Regulations.
- Fulfil requirements of the Act on Control of Household Products Containing Harmful Substances and the Fire Service Act for flame-retardant standards, especially for carpets used in public facilities.
- Market the eco-friendliness of production, as this is an area of increasing interest.

Canada

Based on existing ties with the United States market, there are spillover effects to the Canadian market. Expansion of online marketing in the United States simultaneously contributes to market penetration in Canada. North American countries import 29.5% of carpets globally, which makes them the second-largest carpet-importing bloc in the world. Canada imported US$686,000 of Afghan carpets in 2016. Imports of Afghan carpets have increased 9% annually since 2012. Similarity to the United States market allows exports to be distributed to the Canadian market through existing American marketing channels. Given positive export trends and established trade links, Canada is a promising export destination in the medium term. Once Canadian carpet trading hubs are established, trading channels with Afghanistan can be strengthened. Target buyers are high-income households, hotel chains, restaurants and other facilities.

Middle East

Carpets are historical symbols of wealth in Middle Eastern culture and Middle Eastern consumers understand the value of hand-woven carpets. The high-end luxury industry, to which carpets belong, is flowering in the region. Exports to the UAE have been slowly increasing over the past 10 years, with Afghan hand-made carpets steadily building a high reputation for quality. Exports in 2015 were valued at US$527,000. Market penetration in the UAE can open the door to the Middle Eastern market, which shows increasing interest in carpets.

India

As one of the most important export destinations for Afghan products, India is a potential export market for the Afghan carpet industry. Afghan carpets are not yet established in the Indian market, which is unsurprising considering that India has its own prominent domestic carpet industry that satisfies most local demand. Nevertheless, this does not mean that Afghan carpets cannot penetrate the Indian market, especially when making use of the recently established air corridor between the two countries. Strong existing trade ties in India will also help to establish the reputation for hand-woven Afghan carpets. Adding carpets to the existing export basket to the Indian market would help Afghanistan to diversify its exports to one of its most important export destinations.

Box 3: Export potential in selected Middle Eastern markets

The UAE has been revealed as the main market with untapped potential, with over 47% of its US$3.7 million export potential still unrealized. Emirati importers are increasing imports of carpets. Current imports of US$49.2 million are expected to increase by 22% until 2020. Afghan products are imported at a cheaper price than competitor products. To realize the great export potential in the Emirati market, Afghan exporters have to overcome various non-tariff measures, ranging from sanitary and phytosanitary issues to labelling requirements.

The Islamic Republic of Iran is another attractive market for Afghan carpets, with an unrealized potential of US$1.5 million. Despite Afghanistan facing a high tariff of 50%, it does not suffer from a tariff disadvantage as other competitors also face a 50% average tariff. The Iranian market has a positive outlook with expected growth of 18% by 2020.

The Lebanese market is another hardly explored market with an unrealized export potential of over 85%, even though Afghan carpets are imported at a higher price than their competitors’ products. Nevertheless, Afghan carpet exporters can benefit from the growing Lebanese market in the future and establish the Afghan brand by penetrating an untapped market opportunity.*

Box 4: Export potential in selected Middle Eastern markets (cont.)

Figure 18: Export potential in the UAE

United Arab Emirates: HS 570110 – Carpets and other textile floor coverings, of wool or fine animal hair, knotted, whether or not made up

**Market Entry Requirements**
- Special authorization requirement for SPS reasons
- Certification requirement
- Prohibition for TBT reasons
- Authorization requirement for TBT reasons
- Import monitoring and surveillance requirements and other automatic licensing measures
- State trading enterprises, for importing
- Registration requirements for importers
- Storage and transport conditions
- Product registration requirement
- Inspection requirement
- Requirement to pass through specified port of customs
- Prohibition for TBT reasons
- Export monitoring and surveillance requirements and other automatic licensing measures
- Labelling requirements

**Overall Value**
- Relative index: 8.8

**Source:** ITC (2017): Reconnecting Afghanistan to global markets – An ITC assessment of export potentials and trade obstacles.
STRATEGIC ORIENTATIONS FOR REVIVING THE AFGHAN CARPETS SECTOR

VISION

The Afghan carpets sector is united by the following vision:

“A competitive sector blooming with looms”

In order to fulfil this ambitious vision and the bottom lines described above, the following strategic objectives have been identified. These objectives provide a framework for developing solutions over the next five years. They are as follows.

STRATEGIC OBJECTIVE 1: PRESERVE/CAPTURE INCREASED VALUE AT THE INPUTS AND PROCESSING STAGES OF THE VALUE CHAIN.

This strategic objective has the goal of repatriating value currently leaking outside the country (specifically to Pakistan) through the inputs and processing stages of the value chain.

On the inputs side, the paucity of high-quality, well-treated domestic wool has created a dependence on imports that is untenable. Afghan wool—especially from Ghazi—is of high quality but supply is weak. For this reason, the market is dominated by imports of high-quality and expensive wool from Belgium and relatively low-quality and cheaper wool from the Islamic Republic of Iran and Pakistan. Recommendations to address this situation include establishing shared service centres that can supply good quality scoured/spun/dyed yarn to traders and weavers, and providing assistance to sheep breeders in the area of animal husbandry, enabling them to increase the volume of Afghan wool in the medium-to-long term.

To achieve the goals of value retention and building a strong Afghan brand, it is imperative that the cut and wash finishing process is brought back to Afghanistan. Currently, 90% of Afghan carpets are sent unfinished to Pakistan for a combination of reasons, which include Pakistani expertise in finishing, readily available chemicals for finishing, processing facilities, low cost of labour, year-round warm weather and the proliferation of Pakistani traders that have established networks in international markets. These carpets—primarily from the Chob Rang line—do not carry the Afghan brand once they are finished and shipped.

To counter this significant leakage of value outside Afghanistan, support for upgrading existing cut/wash/dry facilities and developing new ones will be proposed, both through integrated production facilities (such as the shared service centres mentioned above or the industrial parks being established by the Government) and through individual enterprises. The development of these valuable services will increase the number of carpets finished within the country (around 5% at present), which will, in turn, retain value inside the sector and spur job creation and a rise in income. The Strategy will also support the Government’s ongoing efforts to establish industrial parks for the sector, in particular by reviewing and rectifying infrastructural and technical challenges.
Figure 21: Future value chain – strategic objective 1

- Domestic Market
  - Chob Rang: 70% of traded volume by value
- Afghan traditional carpets

Inputs
- Production
- Assembly
- Processing
- Distribution

Domestic market

Future value chain – strategic objective 1

- inputs
  - Domestic Market
    - Afghan traditional carpets
  - Import of Input
    - Pakistan (& Iran)
    - Wool manufacturers
    - Chemical and natural dye manufacturers
    - Belgian Wool
    - Pakistani Wool
    - Input traders

- Machine-made
  - Profit-sharing

- Hand-made
  - Profit-sharing
  - Middlemen:
    - Subcontractor / carpet trader
    - Weaving Households
      - Profit-sharing
      - Direct purchase
      - Subcontracting through carpet traders
    - Cutters
    - Repairmen
    - Designers
    - Stretchers
    - Finishers
    - Washers

Processors

Retailer

Exporter

Large traders

Domestic Market
- Chob Rang comprises 70% of traded volume
- Reimport

Total Export USD 90.2 million

Top Export Destinations
- Pakistan USD 77.6 million
- USA USD 4.9 million
- Germany USD 926,000
- Canada USD 686,000
- Turkey USD 534,000
- France USD 397,000

- Other International Markets
  - Shared Service Centre
    - Design Centre
    - Cotton Centre
    - Chemical dye Centre
    - Vegetable dye Centre

- Guidelines for cutting / washing
- Guidelines for upgrade methods

- Post-weaving treatment
- Post-processing treatment
- Post-washing treatment

- Export Centre
  - Brand development
  - Obligations and productivity support
  - Marketing and promotion
  - Export training

- Middlemen
  - Subcontractor
  - Carpet trader

- Direct purchase
- Subcontracting through carpet traders

- Profit-sharing

- Local sheep wool

- Wool manufacturers

- Comprehensive factory manufacturer

- Comprehensive wool manufacturer

- Comprehensive silk manufacturer

- Comprehensive silk manufacturer
STRATEGIC OBJECTIVE 2: ENABLE PRODUCTIVITY ENHANCEMENT OF SECTOR OPERATIONS THROUGH INCREASED COORDINATION AND APPROPRIATE SKILLS UPGRADING.

This strategic objective is focused on improving the sector’s capacity through upgrading skills demanded by the market and enhancing technology in sector operations. The fact that carpets are a traditional sector in Afghanistan means that skills need to be formalized and upgraded to ensure a proper and sustained human capital supply to the industry, but there is currently no cooperation between private sector stakeholders and educational institutions. Hence, there is no relevant training for the sector in any formal education. Sound links need to be established between the private sector and education and training institutions to facilitate innovation and growth in the industry. Dialogue and coordination will be fostered through the engagement of educational institutions in developing courses required by the sector. Further, international exchanges will be promoted to increase the pool of skilled labour with design expertise.

Operationally, this translates to several activities, including scholarships and exchange programmes for students and professors with foreign design institutes. Upgrading skills in the carpet value chain will also be fostered through the launch of a practical training initiative targeting carpet exporters in order to increase their entrepreneurship and marketing skills as well as their financial knowledge. Building the capacity of carpet producers to adapt to buyer requirements through the provision of computerized design training is also an activity to be implemented. Another key measure will be the creation of a master weavers programme that will have the dual objective of transferring the expertise of skilled weavers to the younger generation while rewarding the skills of these experienced weavers by providing additional income.

Traditional weaving methods can be maintained within the industry as a differentiating attribute among competitors. However, this does not impede the adoption of technology to scale up production and add value at higher stages of the value chain. In operational terms, technology enhancement will be achieved by promoting investment in the carpet industry. Tailored incentives will be created to encourage the Afghan diaspora to invest in the carpet sector. Another key measure will be to improve access to finance, which can enable capital accumulation and business expansion. A first step to achieve this operational objective will be to sensitize commercial banks on sector stakeholders’ financial needs, as well as encourage banks to develop financing products that are appropriate for the industry. Finally, activities aimed at strengthening collaboration among carpet producers will also be implemented under this strategic objective.
Figure 22: Future value chain – strategic objective 2

Inputs
- Pakistan (Iran)
  - Cob Rang Wool
  - Belgian Wool
  - Pakistani Wool

Imports of Input
- Wool manufacturers
- Chemical and natural dye manufacturers

Inputs
- Design
- Cotton
- Chemical dye
- Vegetable dye
- Wool manufacturers

Domestic Inputs
- Design
- Cotton
- Chemical dye
- Vegetable dye

Wool manufacturers

Cob Rang comprises 70% of traded volume by value
- Afghan traditional carpets

Domestic Market
- Afghan traditional carpets

Other International Markets

Top Export Destinations (Source Comtrade Pakistan: direct data, rest mirrored data)
- Pakistan USD 77.6 million
- USA USD 4.9 million
- Germany USD 926,000
- Canada USD 686,000
- Turkey USD 534,000
- France USD 397,000
- Total Export USD 90.2 million

Processors
- Cutters
- Repairmen
- Designers
- Stretcher
- Finishers
- Washers

Middlemen: Subcontractor / carpet trader

Retailer
- Export

Large traders
- Pakistani traders
- Other international markets

Industrial Park Connected to Weaving Households
- Profit-sharing
- Direct purchase
- Subcontracting through carpet traders

Processors
- Cutters
- Repairmen
- Designers
- Stretcher
- Finishers
- Washers

Input traders
- Domestic traders
- Pakistan other international markets

Domestic market
- Afghan traditional carpets

Distribution
- Profit-sharing

Processing
- Finishing
- Washing

Assembly
- Hand-made
- Machine-made

Production
- Domestic market
- Domestic market

Assembly
- Domestic market
- Domestic market

Inputs
- Pakistan (Iran)
- Domestic market

Distribution
- Domestic market
- Domestic market

Processing
- Domestic market
- Domestic market

Assembly
- Domestic market
- Domestic market

Production
- Domestic market
- Domestic market

Inputs
- Domestic market
- Domestic market

Assembly
- Domestic market
- Domestic market

Production
- Domestic market
- Domestic market

Inputs
- Domestic market
- Domestic market

Assembly
- Domestic market
- Domestic market

Production
- Domestic market
- Domestic market

Inputs
- Domestic market
- Domestic market

Assembly
- Domestic market
- Domestic market

Production
- Domestic market
- Domestic market

Diagram shows the value chain for Afghanistan's carpet sector, highlighting inputs, production, assembly, processing, distribution, and domestic market. It outlines the strategic objectives and key stakeholders involved in the export process.
STRATEGIC OBJECTIVE 3: IMPROVE REGULATORY AND INSTITUTIONAL SUPPORT FOR THE SECTOR.

This strategic objective aims to improve the socioeconomic conditions of the weaving community, mitigate child labour in the sector and provide crucial institutional support in the areas of quality management and land access, among other goals.

The weaving community – primarily comprised of women – shoulders significant burdens. These include unhygienic working conditions, depressed wages with limited scope for negotiation, and a deeply entrenched culture of using child labour. The goal of the Strategy is to gradually counter child labour through an approach that incentivizes rather than punishes an already suffering weaving community. The approach is to bring weaving communities out of isolation and into weaving workshops/centres, where working conditions are healthier (using good industry practices such as vertical versus horizontal looms) and wages are fair (daily wages rather than output-based). The Strategy proposes a framework of existing carpet cooperatives or other forms of associations where possible. These centres will have supporting infrastructure such as day care facilities for children while mothers are gainfully employed.

Certifications such as GoodWeave that have a presence in the country can be a useful instrument to incentivize traders to employ decent practices in contracting weavers, through the promise of increased international access and recognition that comes with GoodWeave certification.

This strategic objective is also geared towards improving the quality management infrastructure in the sector. This will be accomplished by developing/revising and deploying Afghan standards, strengthening the capacity of ANSA to cater to the needs of the sector, and developing an imports surveillance regime to ensure proper quality and grading of imported wool, among other activities. Finally, easing burdensome land regulations and streamlining property ownership and leasing will be a focus area addressed by the Strategy.
Figure 23: Future value chain – strategic objective 3

- **Cutters**
- **Retailer**
- **Exporter**
- **Repairmen**
- **Designers**
- **Stretchers**
- **Finishers**
- **Washers**

**Top Export Destinations**
- Pakistan USD 77.6 million
- USA USD 4.9 million
- Germany USD 926,000
- Canada USD 686,000
- Turkey USD 534,000
- France USD 397,000

**Chob Rang**
- Comprises 70% of traded volume by value
- Afghan traditional carpets

**Inputs**
- **Domestic Input**
  - Design
  - Cotton
  - Chemical dye
  - Vegetable dye
- **Weaving Households**
  - Profit-sharing
  - Direct purchase
  - Subcontracting through carpet traders
- **Imported Wool**
  - Silk manufacturers
  - Wool manufacturers
  - Chemical and natural dye manufacturers
- **Domestic Input**
  - Design
  - Cotton
  - Chemical dye
  - Vegetable dye
- **Local sheep wool**

**Domestic Market**
- Chob Rang comprises 70% of traded volume by value
- Afghan traditional carpets

**Production**
- **Processors**
  - Cutters
  - Repairmen
  - Designers
  - Stretchers
  - Finishers
  - Washers
- **Professionals**
  - Pest control
  - Wage-based labour
  - Health and welfare of weavers
  - Quality standard for carpets

**Assembly**
- **Input traders**
  - Hand-made
  - Wage-based labour
- **Domestic Input**
  - Design
  - Cotton
  - Chemical dye
  - Vegetable dye
- **Weaving centres**
  - Profit-sharing
  - Day care facilities for children

**Processing**
- **Processors**
  - Cutters
  - Repairmen
  - Designers
  - Stretchers
  - Finishers
  - Washers
- **Domestic Input**
  - Design
  - Cotton
  - Chemical dye
  - Vegetable dye
- **Weaving Households**
  - Profit-sharing
  - Direct purchase
  - Subcontracting through carpet traders

**Distribution**
- **Domestic Market**
  - Chob Rang
  - Afghan traditional carpets
- **International Market**
  - Pakistan
  - Other International Markets

**Domestic Market**
- Pakistani Traders

**Total Export USD 90.2 million**

**Top Export Destinations**
- Pakistan USD 77.6 million
- USA USD 4.9 million
- Germany USD 926,000
- Canada USD 686,000
- Turkey USD 534,000
- France USD 397,000

**Best practices**
- Quality standard for carpets
- Pest control
- Wage-based labour

**Input from export organization**
- GoodWeave license

**Domestic market**
- Chob Rang comprises 70% of traded volume by value
- Afghan traditional carpets

**Inputs**
- **Domestic Input**
  - Design
  - Cotton
  - Chemical dye
  - Vegetable dye
- **Weaving Households**
  - Profit-sharing
  - Direct purchase
  - Subcontracting through carpet traders

**Production**
- **Processors**
  - Cutters
  - Repairmen
  - Designers
  - Stretchers
  - Finishers
  - Washers
- **Professionals**
  - Pest control
  - Wage-based labour
  - Health and welfare of weavers
  - Quality standard for carpets

**Assembly**
- **Input traders**
  - Hand-made
  - Wage-based labour
- **Domestic Input**
  - Design
  - Cotton
  - Chemical dye
  - Vegetable dye
- **Weaving centres**
  - Profit-sharing
  - Day care facilities for children

**Processing**
- **Processors**
  - Cutters
  - Repairmen
  - Designers
  - Stretchers
  - Finishers
  - Washers
- **Domestic Input**
  - Design
  - Cotton
  - Chemical dye
  - Vegetable dye
- **Weaving Households**
  - Profit-sharing
  - Direct purchase
  - Subcontracting through carpet traders

**Distribution**
- **Domestic Market**
  - Chob Rang
  - Afghan traditional carpets
- **International Market**
  - Pakistan
  - Other International Markets

**Domestic Market**
- Pakistani Traders

**Total Export USD 90.2 million**

**Top Export Destinations**
- Pakistan USD 77.6 million
- USA USD 4.9 million
- Germany USD 926,000
- Canada USD 686,000
- Turkey USD 534,000
- France USD 397,000

**Best practices**
- Quality standard for carpets
- Pest control
- Wage-based labour

**Input from export organization**
- GoodWeave license

**Domestic market**
- Chob Rang comprises 70% of traded volume by value
- Afghan traditional carpets
STRATEGIC OBJECTIVE 4: STRENGTHEN MARKET LINKS AND ENTERPRISE ABILITIES TO FORGE/SUSTAIN BUYER RELATIONSHIPS THROUGH IN-MARKET SUPPORT, BRANDING AND STREAMLINING CUSTOMS PROCEDURES.

To improve the carpet sector’s capacity to position itself in the global market, it is of utmost importance to strengthen market links and enterprise abilities to forge and maintain commercial relationships. Several factors contribute to the limited links between Afghan carpet companies and international operators, including the lack of opportunities to connect with potential buyers and develop expertise to compete in regional and international markets. Therefore, improving in-market support for enterprises is a prerequisite for expanding export opportunities.

In operational terms, this objective will be reached by facilitating the participation of Afghan carpet exporters in international fairs and exhibitions, along with business-to-business meetings in key target markets such as the UAE, the United States and Germany. Financial and logistical support will be provided through a grant mechanism for selected Afghan companies to participate in key events. To maximize business opportunities, beneficiary companies will also receive assistance in the form of coaching to understand the market, support visa applications and facilitate one-on-one meetings with buyers, among other things.

Another key component of this strategic objective will be enabling trade attachés in key markets to provide relevant in-market support. Through this activity, Afghan companies will have access to reliable and tailored market information and will receive support to identify and connect with international partners. To improve dissemination of market intelligence to Afghan carpet exporters, market profiles for target markets will be developed and disseminated through mechanisms such as newsletters. This measure will promote the understanding of, and compliance with, import laws and regulations among Afghan carpet exporters.

As Afghan carpets are frequently exported under the label of a foreign country, strengthening the brand of the Afghan carpet sector is also a priority. A key component will be to explore the feasibility of establishing geographical indications for Afghan carpets in order to offer better legal protection to domestic production. A careful examination should be undertaken to determine which Afghan carpet types linked to specific geographical regions within the country have the highest probability of, and potential benefits from, being awarded such legal protection. Geographical indications can help increase the quality and marketing of specific Afghan carpet styles, since they are also a tool for branding and market promotion. Case studies in the region, such as the geographical indication provided to Pochampally Ikat (sarees) in India, should be studied to take advantage from lessons learned in other carpet-producing nations. Under this operational objective, sector-specific catalogues showcasing the attributes of the Afghan carpet industry will also be developed and disseminated.

Finally, it will be vital to streamline export clearance for the carpet sector. In operational terms, this objective will be reached by identifying and addressing the most burdensome Customs procedures and common non-tariff measures that currently hinder carpet exports. Enhancing communication and cooperation with Customs authorities in neighbouring countries such as Pakistan will also be explored. It is essential to improve data collection on cross-border trade of carpets, as well as to prevent and counter illegal activities damaging to the industry, such as smuggling of carpets.
Figure 24: Future value chain – strategic objective 4

Inputs:
- Cob Rang Wool
- Belgian Wool
- Pakistani Wool
- Silk manufacturers
- Wool manufacturers
- Chemical and natural dye manufacturers
- Domestic Inputs:
  - Design
  - Cotton
  - Chemical dye
  - Vegetable dye
- Local sheep wool

Production:
- Input traders
- Output traders
- Processors:
  - Cutters
  - Repairmen
  - Designers
  - Stretchers
  - Finishers
  - Washers
- Weaving Households:
  - Profit-sharing
  - Direct purchase
  - Subcontracting through carpet traders
- Middlemen: Subcontractor / carpet trader

Assembly:
- Domestic Market
  - Chob Rang comprises 70% of traded volume by value
  - Afghan traditional carpets

Processing:
- Domestic Market
  - Reimport

Distribution:
- Domestically
  - Chob Rang comprises 70% of traded volume by value
  - Afghan traditional carpets
- Internationally
  - Top Export Destinations:
    - Pakistan USD 77.6 million
    - USA USD 4.9 million
    - Germany USD 926,000
    - Canada USD 686,000
    - Turkey USD 534,000
    - France USD 389,000

Domestic Market:
- Large traders
  - Importers
  - Exporters
- Exporter
  - Large traders
  - Pakistan Traders
  - Pakistan Other International Markets

International Market:
- Top Export Destinations:
  - Pakistan USD 77.6 million
  - USA USD 4.9 million
  - Germany USD 926,000
  - Canada USD 686,000
  - Turkey USD 534,000
  - France USD 389,000

Export Data:
- Trade data exchange
- Print literature, brochures, catalogues
- In-market support
- Target market profile
- Participation at fairs and exhibitions
- Grants mechanism
- Coaching and organizational support
- Publication of fees and formalities
- Select types of carpets for export
- Electronic submission of documents
- Select types of carpets for export
MOVING TO ACTION

KEY REQUIREMENTS FOR EFFECTIVE IMPLEMENTATION

The development of the future value chain for the carpets sector is a five-year project defined through a consultative process between Afghan public and private sector stakeholders. Achieving the strategic objectives and realizing the future value chain depend heavily on the ability of sector stakeholders to start implementing and coordinating the activities defined in the Strategy’s PoA.

The Strategy in and of itself will not alone suffice to ensure the sector’s sustainable development. Such development will require the coordination of various activities. While the execution of these activities will allow for the Strategy’s targets to be achieved, success will depend on the ability of stakeholders to plan and coordinate actions in a tactical manner. Apparently unrelated activities must be synchronized across the public sector, private sector, non-governmental organizations and local communities in order to create sustainable results.

To ensure the success of the Strategy, it is necessary to foster an adequate environment and create an appropriate framework for implementation. The following section presents some of the key success conditions considered necessary for effectively implementation.

ESTABLISH AND OPERATIONALIZE A PUBLIC AND PRIVATE COORDINATING BODY AND EXECUTIVE SECRETARIAT

Carpets sector steering committee

A key success criterion for the Strategy is the ability to coordinate activities, monitor progress and mobilize resources for implementation. It is recommended that a steering committee comprised of key public and private sector entities be formed or supported (if such a committee already exists). This will function as a platform with balanced representation of all major carpet stakeholders to share information openly.

It is proposed that the steering committee be responsible for the following tasks related to Strategy implementation:

- Coordinate and monitor the implementation of the Strategy by the Government, private sector, institutions or international organizations to ensure implementation is on track;
- Identify and recommend allocation of resources necessary for the implementation of the Strategy;
- Assess the effectiveness and the impact of the Strategy;
- Ensure consistency with the Government’s existing policies, plans and strategies, and align institutions’ and agencies’ internal plans and interventions with the Strategy PoA;
- Elaborate and recommend revisions and enhancements to the Strategy so that it continues to best respond to the needs and long-term interests of the national business and export community;
- Propose key policy changes to be undertaken, based on Strategy priorities, and promote these policy changes among national decision makers;
- Guide the sector secretariat for the monitoring, coordination, resource mobilization, and policy advocacy and communication functions to enable effective implementation of the Strategy;
- Provide the sector secretariat with the mandate and the necessary resources to fulfil its functions effectively.

Composition of the carpets sector steering committee

It is recommended that the steering committee be comprised of key entities involved in the sector, with special focus on ensuring equitable involvement of both the public and the private sector.

Secretariat

A secretariat will assist the steering committee by acting as an operational body responsible for the daily coordination, monitoring and mobilization of resources for implementing the PoA. It is proposed that it takes on this role with technical support from key ministries and technical agencies. The secretariat will be composed of one to two technical operators.
The core responsibilities of the sector secretariat should be to:

- Support functioning of the carpets sector steering committee;
- Collect and manage data to monitor the progress and impact of Strategy implementation;
- Liaise with and coordinate development partners for Strategy implementation;
- Elaborate project proposals and build partnerships to mobilize resources to implement the Strategy;
- Follow up on policy advocacy recommendations from the steering committee;
- Ensure effective communication and networking for successful Strategy implementation.

Both the carpets sector steering committee and its secretariat will work hand-in-hand with existing entities established to streamline Government operations and enhance donor operations. These include the NES secretariat and others. It is possible that the secretariat is accommodated as part of an existing entity with an extended mandate and resources allocated to it.
STRATEGIC PLAN OF ACTION
**Strategic objective 1**: Preserve/capture increased value at the inputs and processing stages of the value chain

<table>
<thead>
<tr>
<th>Operational Objectives</th>
<th>Activities</th>
<th>Priority</th>
<th>Implementation period</th>
<th>Target</th>
<th>Lead and Supporting Implementers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1. Improve the provision of good quality inputs in the sector.</td>
<td>1.1. Carry out a pilot programme to support sheep breeders in husbandry and productivity.</td>
<td>2</td>
<td>2017</td>
<td>Pilot programme set up and operational in five major carpet-producing provinces, including Kabul, Jawzjan and Herat</td>
<td>MAIL, MoCI</td>
</tr>
<tr>
<td></td>
<td>• Identify key associations and cooperatives to serve as nuclei for the pilot programme in main carpet-producing provinces.</td>
<td></td>
<td>2018</td>
<td>At least 5–10 sheep breeders’ organizations identified and assessed, and profiles created</td>
<td>ANSA, Ministry of Energy and Water, Ministry of Rural Rehabilitation and Development, Independent Directorate of Local Governance</td>
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<tr>
<td></td>
<td>• Evaluate the reach of sheep breeders and their past work in the carpet value chain. Evaluate the implementation capacity of selected associations and create a profile for each organization.</td>
<td></td>
<td>2019</td>
<td></td>
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<tr>
<td></td>
<td>• Develop training content (curriculum) and teaching materials. Programme will include trainings on different areas to support the carpet industry, such as:</td>
<td></td>
<td>2020</td>
<td></td>
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<td></td>
<td>– Breed improvement</td>
<td></td>
<td>2021</td>
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<td></td>
<td>– Overgrazing prevention (e.g., importance of resting pastures and rotating livestock)</td>
<td></td>
<td>2022</td>
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<tr>
<td></td>
<td>– Good practices in husbandry and productivity</td>
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<td></td>
<td>– Disease prevention and management</td>
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<td></td>
<td>– Raise awareness to encourage the production of white sheep wool through targeted outreach informational sessions</td>
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<td></td>
<td>– Improve quality of wool production.</td>
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<tr>
<td></td>
<td>• Launch the pilot programme.</td>
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<td></td>
<td>1.1.2. Explore alternative methods to wool scouring that can improve the efficiency, cost-effectiveness and water recovery/re-use in the wool scouring process (e.g., dry wool scouring).</td>
<td>3</td>
<td>2017</td>
<td>Five pilot initiatives developed and five corresponding pilot demonstration trials are operational</td>
<td>Afghanistan Research and Evaluation Unit, MoCI</td>
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<tr>
<td></td>
<td>• Conduct a feasibility study.</td>
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<td>2018</td>
<td></td>
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<tr>
<td></td>
<td>• Assess the possibility of collaborating with regional and international institutions. Develop pilot initiatives and apply pilot demonstration trials using new wool scouring technologies.</td>
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<td>2019</td>
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<tr>
<td></td>
<td>1.1.3. To overcome the lack of organization and associations in the wool sector and the lack of pre-weaving facilities, establish shared service centres that provide services such as wool scouring, spinning and dyeing of yarn to producers’ associations in major wool production areas. The following will apply to operations within the centres:</td>
<td>2</td>
<td>2020</td>
<td>Establish at least five shared service centres in key provinces such as Jawzjan, Kunduz, Faryab, Herat, and Kandahar</td>
<td>MoCI, Ministry of Energy and Water, MAIL, ACCI, ACEG and associations</td>
</tr>
<tr>
<td></td>
<td>• Conduct feasibility studies to select land on which to establish these centres, considering access to water and electricity in addition to strategic location vis-à-vis the rest of the supply chain.</td>
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<td>2021</td>
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<td></td>
<td>• Facilitate access of dyeing technology to small operators; and develop dyeing, colour and shade matching facilities to improve the colour and quality of final products.</td>
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<td>2022</td>
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<tr>
<td></td>
<td>• Potentially, these shared service centres could also offer cut and wash facilities. The centres could also provide:</td>
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<tr>
<td></td>
<td>– Showrooms to enable weavers to sell their products</td>
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<td></td>
<td>– Storage facilities for finished products and raw materials</td>
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<td></td>
<td>– Design centres.</td>
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</tbody>
</table>

* Targets are indicative only and will be the subject of further refinement at beginning of the Implementation Management stage. Similarly, the lead and supporting implementers column remains indicative as the implementation will require collective efforts, for which additional institutions may be added.*
### Strategic Plan of Action

#### Strategic objective 1: Preserve/capture increased value at the inputs and processing stages of the value chain

<table>
<thead>
<tr>
<th>Operational Objectives</th>
<th>Activities</th>
<th>Priority 1=high 2=med 3=low</th>
<th>Implementation period</th>
<th>Target*</th>
<th>Lead and Supporting Implementers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2. Improve sector ability to undertake post-weaving processes inside the country.</td>
<td></td>
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</tr>
<tr>
<td>1.2.1. Undertake an independent study to identify the main gaps and flaws in management of government industrial parks dedicated to carpets. Assess levels of service support, technical capacities and activity implementation, among others. Based on identified main gaps and constraints, develop and implement corrective policy measures (e.g. establishing power generators) and tailored capacity-building workshops (e.g. on improving bookkeeping) to key government officials, accordingly.</td>
<td>1</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• An independent study is prepared to assess industrial parks • Measures and policies are developed and integrated, accordingly</td>
<td>MoCI, Ministry Of Finance (MoF), Afghanistan Independent Land Authority (ARAZI), Afghanistan Chamber of Industries and Mines, ACEG/associations</td>
<td></td>
</tr>
<tr>
<td>1.2.2. Launch a multilayer programme to support the upgrade of existing and the development of new cut and wash facilities. Increase access to cut and wash facilities within the country (as stand-alone businesses) through this multilayer programme, which will need to involve: • Assessment of existing facilities, in terms of functioning of operations, as well as a market analysis to evaluate increasing their operational capacity. • Feasibility study of business opportunities for the establishment of new cut and wash facilities in main production provinces, including the development of a business model where a wash and cut company is linked to small producers and offers services such as quality control and labelling (general/customized). • Development of specific financial schemes. • Technology transfer. • Training on operating and maintaining the machines by creating links with technical and vocational education and training (TVET) institutions in the area. – Entrepreneurship fundamentals, among other aspects including contract negotiation skills.</td>
<td>1</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• At least four cut and wash facilities are developed/upgraded per year</td>
<td>MoCI, ANSA, National Environmental Protection Agency (NEPA), Ministry of Energy and Water, Ministry of Rural Rehabilitation and Development, ARAZI, ACCI, ACEG/associations</td>
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<tr>
<td>1.2.3. Facilitate business-to-business links between cut and finish service suppliers and carpet producers through: • The organization of fairs and exhibitions to bring together suppliers and interested parties. • The development of a directory of cut and finish service suppliers to be disseminated to carpet producers through websites and brochures.</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Two fairs per year organized in six key provinces, such as Kabul, Jowzjan, Kunduz, Farah and Herat • A directory is developed and disseminated. Directory updated annually</td>
<td>MoCI, ACCI, ACEG/associations</td>
<td></td>
</tr>
<tr>
<td>1.2.4. Develop strict operating and environmental guidelines for quality cutting and washing of carpets. Disseminate to service suppliers and carpet producers through workshops, brochures and websites. Encourage development of settling ponds to separate toxins from the water before it is discharged.</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Guidelines for quality cutting and washing of carpets developed • Two workshops conducted per year</td>
<td>NEPA, MAIL, ACEG</td>
<td></td>
</tr>
<tr>
<td>1.2.5. Conduct technical studies on improved methods and inputs to be used in post-weaving processes. • Facilitate collaboration between national and foreign research institutions on research of upgraded methods and inputs to be used in cut and wash processes. • Conduct technical studies on improved methods and inputs to be used in post-weaving processes. Disseminate recommendations to carpet producers and associations through short courses.</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Four technical studies conducted • Four short courses delivered to carpet producers and associations</td>
<td>MoCI</td>
<td></td>
</tr>
</tbody>
</table>
### Strategic objective 2: Enable productivity enhancement of sector operations through increased coordination and appropriate skills upgrading

#### Operational Objectives

<table>
<thead>
<tr>
<th>Activities</th>
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<th>Implementation period</th>
<th>Target</th>
<th>Lead and Supporting Implementers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1. Strengthen cooperation among sector operators.</td>
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<tr>
<td>2.1.1. Promote the formation of carpet producers’ associations and increase the membership of existing associations.</td>
<td>1=high</td>
<td>2017</td>
<td>Two seminars per year conducted in four main producing areas, such as Jawzjan, Kunduz, Faryab and Herat</td>
<td>MoCI, MAIL, ACCI, ACEG / associations</td>
</tr>
<tr>
<td>Encourage the formation of carpet producers’ associations through the organization of awareness-raising seminars and open-house meetings.</td>
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<td>2018</td>
<td></td>
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<tr>
<td>Promote, through the same channels, the expansion of membership in existing associations.</td>
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<td>2019</td>
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</tr>
<tr>
<td>2.1.2. Establish a high-level coordination platform among sector support institutions, including ACEG and business associations.</td>
<td>1</td>
<td>2020</td>
<td>Coordination platform established and quarterly meetings are conducted</td>
<td>MoCI, MAIL, ACCI, ACEG / associations, MoF</td>
</tr>
<tr>
<td>Coordination platform to formalize periodic meetings to discuss and communicate on new policies and any developments which have an impact on the sector, among other issues.</td>
<td></td>
<td>2021</td>
<td></td>
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<tr>
<td>2.1.3. Establish community-based weaving cooperatives / weaving centres where women can work together in a safe and conducive environment rather than in isolation.</td>
<td>2</td>
<td>2022</td>
<td>A centre is established in each of the five main producing provinces, including Kabul and Herat</td>
<td>Ministry of Women’s Affairs, Ministry of Labour, Social Affairs, Martyrs and Disabled (MoLSAMD), MoCI, ACCI, ACEG / associations</td>
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<tr>
<td>Adhere to best practices and safe equipment (such as vertical looms).</td>
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<td>Ability to buy input supplies at wholesale costs and thereby improve their margins.</td>
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<tr>
<td>Wage-based labour rather than per unit cost.</td>
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<tr>
<td>Establish day care facilities in close proximity to community-based working facilities to provide a safe environment to care for children while women are working.</td>
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<tr>
<td>Female-led cooperatives would be GoodWeave licensees with the additional benefit of access to international markets.</td>
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<tr>
<td>2.1.4. Create tailored incentives to promote diaspora participation in the carpet industry.</td>
<td>3</td>
<td></td>
<td>List of incentives is developed and in place</td>
<td>MoCI, Ministry of Rural Rehabilitation and Development, MoF, carpets associations</td>
</tr>
<tr>
<td>Create tailored incentives targeting the diaspora to direct their remittances towards investments in the carpet sector. This measure to be implemented in harmony with other investment promotion measures targeting Afghans abroad. Incentives can potentially include the following suggestions:</td>
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<tr>
<td>Tax rebates / subsidies. Explore and assess similar measures in neighbouring countries, e.g. Pakistan, and their applicability to the Afghan carpet sector.</td>
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<tr>
<td>Diaspora bonds. Identify and evaluate examples, e.g. India or Israel. Assess potential applicability for the Afghan carpet sector.</td>
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<tr>
<td>2.2. Establish sector-specific training programmes.</td>
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<tr>
<td>2.2.1. Set up an institutional and technical framework within the sector coordination platform from activity 2.1.2., such as a carpet skills council, to be responsible for planning and monitoring of industry-related training and skills development. The carpet skills council to be formed by private sector representatives, relevant universities and TVETs, as well as ministries in related sectors and the Ministry of Women’s Affairs. Identify a private sector interlocutor to be responsible for communication with academia. The interlocutor must have influence and support from other private sector stakeholders.</td>
<td>1</td>
<td></td>
<td>Carpet skills council established</td>
<td>Ministry of Education (MoE), ACCI, ACEG, MoCI</td>
</tr>
</tbody>
</table>
### Strategic Objective 2: Enable productivity enhancement of sector operations through increased coordination and appropriate skills upgrading

#### Operational Objectives

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</thead>
<tbody>
<tr>
<td>2.2. Establish sector-specific training programmes</td>
<td>2</td>
<td>2017</td>
<td>• Skills gap study conducted, focusing on the main producing areas, including Herat and Kabul</td>
<td>MoE, ACCI, ACEG</td>
</tr>
<tr>
<td>2.2.2. Carpet skills council to conduct a skills gap study on the sector.</td>
<td></td>
<td></td>
<td>• Curricula developed</td>
<td>MoE, ACCI, ACEG</td>
</tr>
<tr>
<td>Conduct a rapid assessment of the sector through field consultations with producers, buyers, young people and training institutions to:</td>
<td></td>
<td></td>
<td>• Training programmes focused on the carpet sector developed and available in five TVETs</td>
<td>MoE, ACCI, ACEG</td>
</tr>
<tr>
<td>• Identify the skills demanded by the market in the different stages of the carpet value chain.</td>
<td></td>
<td></td>
<td>• Two memorandums of understanding signed with regional / international training institutions</td>
<td>MoE, ACCI, ACEG</td>
</tr>
<tr>
<td>• Map the existing formal training offer, especially in training institutions in the north as well as in Herat and Kabul.</td>
<td></td>
<td></td>
<td>• Master weavers programme created and operational in five TVETs schools / institutions</td>
<td>MoE (TVET), MoLSAMD, ACCI, ACEG / associations</td>
</tr>
<tr>
<td>Assess the interest of young people to engage in the carpet sector.</td>
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<tr>
<td>2.2.3. Curriculum development with standards and certification schemes adopted.</td>
<td>2</td>
<td>2017</td>
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<tr>
<td>Based on the findings of the skills gap study, training institutions will be supported to:</td>
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<tr>
<td>• Develop and improve curricula relevant to the carpet sector in areas such as weaving and carpet design, including computerized design training.</td>
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<tr>
<td>• Integrate entrepreneurship and introductory business management modules.</td>
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<tr>
<td>Align with national or international standards and certification schemes to ensure recognition of the qualifications and meet market requirements.</td>
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<tr>
<td>2.2.4. Roll out market-relevant TVET training programmes.</td>
<td>2</td>
<td>2017</td>
<td></td>
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</tr>
<tr>
<td>Enhance and roll out technical skills training programmes related to the carpet sector to Afghan youth, including school dropouts and returnees. The skill areas will be based on the carpet sector skills gap assessment and the enhanced curricula in order to ensure alignment with market requirements. The training programmes will be deployed through:</td>
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<tr>
<td>• Existing local training institutions engaged in carpet sector skills development.</td>
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<tr>
<td>• Computer-based training on carpet design, entrepreneurship and trade.</td>
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<td>Skills competitions and award mechanisms for carpet design.</td>
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<tr>
<td>2.2.5. Partnerships for training institutions. Establish arrangements between Afghan training institutions and regional / international training institutions, particularly with countries with expertise in the carpet sector such as India, as well as international companies producing necessary technology and equipment for the carpet sector to:</td>
<td>3</td>
<td>2017</td>
<td></td>
<td>MoCI, ACCI, ACEG / associations</td>
</tr>
<tr>
<td>• Exchange technical knowledge on carpet design and weaving</td>
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<td>• Conduct training of trainer programmes to build instructor capacity</td>
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<tr>
<td>• Access new training resources</td>
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<tr>
<td>• Facilitate technology and equipment transfer.</td>
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<tr>
<td>2.2.6. Apprenticeship schemes in carpet design and weaving. Create a programme of master weavers to transfer traditional skills and knowledge on carpet weaving. Create a short-term paid apprenticeship programme with master craftspeople to:</td>
<td>3</td>
<td>2017</td>
<td></td>
<td>MoE (TVET), MoLSAMD, ACCI, ACEG / associations</td>
</tr>
<tr>
<td>• Deliver hands-on training in carpet design and weaving and ensure formal knowledge transfer.</td>
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<tr>
<td>Provide certification for the knowledge gained.</td>
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</tbody>
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### Strategic objective 2: Enable productivity enhancement of sector operations through increased coordination and appropriate skills upgrading

#### Operational Objectives

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<tr>
<td>2.2. Establish sector-specific training programmes.</td>
<td>3</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Four local champions identified and recruited for radio shows  • At least six radio show segments dedicated to local champions  • One exhibition a year in at least four universities, including but not limited to Kabul</td>
<td>Ministry of Communications and Information Technology, MoCI, carpet associations</td>
</tr>
<tr>
<td>2.2. Establish sector-specific training programmes.</td>
<td>3</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Sensitize young people on skills development and economic opportunities in the carpets sector, particularly returnees, through:  • Radio shows with local champions in the sector.  • Exhibitions and fairs to promote the sector among young people.  • Social media and other online platforms with high youth presence.</td>
<td></td>
</tr>
<tr>
<td>2.3. Facilitate technology upgrade through enabling access to computerized designing</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Practical training initiative launched and operational, including:  • Two training and exploratory missions organized per year  • Two short courses on computerized design per year</td>
<td>MoE, Ministry of Higher Education, MoCI (ACEG), Kabul University</td>
</tr>
<tr>
<td>2.3. Facilitate technology upgrade through enabling access to computerized designing</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Design a practical training initiative targeted at improving the design abilities of Afghan carpet firms. The initiative will aim to upgrade sector technology through the use of computerized design.  • Carpet skills council to be responsible for the training initiative.  • Organize training and exploratory missions to neighbouring countries, e.g. the Islamic Republic of Iran and India, to identify the best-suited information technology and software services for computerized design to be provided to weaving companies.  • Develop a curriculum for short courses on the use of computerized designs for carpet producers and associations.  • Hire designers on a contract basis to develop designs for selected markets.</td>
<td></td>
</tr>
<tr>
<td>2.3. Facilitate technology upgrade through enabling access to computerized designing</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Design a practical training initiative targeted at improving the design abilities of Afghan carpet firms. The initiative will aim to upgrade sector technology through the use of computerized design.  • Carpet skills council to be responsible for the training initiative.  • Organize training and exploratory missions to neighbouring countries, e.g. the Islamic Republic of Iran and India, to identify the best-suited information technology and software services for computerized design to be provided to weaving companies.  • Develop a curriculum for short courses on the use of computerized designs for carpet producers and associations.  • Hire designers on a contract basis to develop designs for selected markets.</td>
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</tr>
<tr>
<td>2.3. Facilitate technology upgrade through enabling access to computerized designing</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• As part of the training initiative on carpet design, strengthen linkages with international foreign design institutes through:  • Developing an exchange programme between Afghan students and students of foreign design institutes, e.g. India.  • Developing and rolling out a scheme to award scholarships to trainees.  • Developing an exchange programme for professors of foreign design institutions to teach at Afghan institutions.  • Providing design software and specialized design plotter (printer) to carpet producers (50)</td>
<td>MoE, Ministry of Higher Education, MoCI (ACEG), Kabul University</td>
</tr>
<tr>
<td>2.4. Enhance entrepreneurs’ skills.</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Software developed and accessed by 50 small and medium-sized enterprises (SMEs) / carpet associations</td>
<td>MoE, Ministry of Higher Education, MoCI (ACEG), Kabul University</td>
</tr>
<tr>
<td>2.4. Enhance entrepreneurs’ skills.</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Increase carpet exporters’ entrepreneurship skills. Conduct short courses to train carpet exporters in business and export management, specifically:  • Understanding business in Afghanistan: licences, tax regimes.  • Understanding exporting: export procedures and documentation, Incoterms.  • Negotiation skills: pricing, negotiating and procuring orders.</td>
<td>MoCI, ACCI</td>
</tr>
<tr>
<td>2.4. Enhance entrepreneurs’ skills.</td>
<td>2</td>
<td>2017 2018 2019 2020 2021 2022</td>
<td>• Develop carpet exporters’ branding and marketing skills. Conduct basic and advanced training courses on:  • Branding, marketing sales and clients relationships: creating and developing a brand, reaching out to potential buyers, presenting the carpet portfolio through up-to-date marketing practices.</td>
<td>MoCI, ACCI</td>
</tr>
</tbody>
</table>
### Strategic Objective 3: Improve the regulatory and institutional support for the sector

#### Operational Objectives

<table>
<thead>
<tr>
<th>Activities</th>
<th>Priority</th>
<th>Implementation Period</th>
<th>Target</th>
<th>Lead and Supporting Implementers</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1. Progressively improve working conditions in the sector.</td>
<td>3</td>
<td>2017 - 2022</td>
<td>One annual campaign is rolled out</td>
<td>MoCI, MoLSAMD, ACEG</td>
</tr>
<tr>
<td>3.1.1. Launch an advocacy campaign to encourage traders to progressively offer wages rather than per-unit payment. Incentivize this through the option of becoming a GoodWeave licensee, which facilitates access to international markets.</td>
<td>3</td>
<td>2017 - 2022</td>
<td>Two round tables conducted annually, targeting 30 producers and 10 traders</td>
<td>MoCI, MoLSAMD, ACEG</td>
</tr>
<tr>
<td>3.1.2. Conduct two round tables annually, targeting 30 producers and 10 traders.</td>
<td>2</td>
<td>2017 - 2022</td>
<td>Position paper developed and disseminated through a seminar</td>
<td>MoLSAMD, ANSA, MoCI, ACO, ACEG / associations</td>
</tr>
<tr>
<td>3.1.3. Develop a position paper aimed at lobbying the Government to introduce and enforce labour regulations specifically targeting carpet weaving.</td>
<td>3</td>
<td>2017 - 2022</td>
<td>Scheme is created and operational</td>
<td>Ministry of Public Health, MoLSAMD, MoCI, ACEG / associations</td>
</tr>
<tr>
<td>3.1.4. To improve the health conditions of artisans, create a scheme to address the welfare requirements of weavers with respect to health and insurance.</td>
<td>2</td>
<td>2017 - 2022</td>
<td>An annual national awareness-raising campaign is rolled out</td>
<td>MoCI, MoLSAMD, ANSA, Ministry of Public Health, ACCI, ACEG</td>
</tr>
<tr>
<td>3.2. Gradually reduce the presence of child labour in the sector.</td>
<td>3</td>
<td>2017 - 2022</td>
<td>List of incentives is developed and operational</td>
<td>MoLSAMD, MoCI, ACCI, ACEG / associations</td>
</tr>
<tr>
<td>3.2.1. Extend the reach of non-child labour certifications such as GoodWeave at the national level.</td>
<td>2</td>
<td>2017 - 2022</td>
<td>Two workshops per year are conducted in five major production provinces</td>
<td>MoE, MoLSAMD, ACEG / associations, MoCI</td>
</tr>
<tr>
<td>3.2.2. Create incentives such as grant support to facilitate the participation of certified ‘no-child-labour’ carpet exporters in international fairs and exhibitions.</td>
<td>2</td>
<td>2017 - 2022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.2.3. Conduct community-based awareness-raising and education workshops aimed at challenging the norm of child labour and associated practices in the sector.</td>
<td>3</td>
<td>2017 - 2022</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Strategic objective 3: Improve the regulatory and institutional support for the sector

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<thead>
<tr>
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<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.3. Improve quality management at the institutional and enterprise levels.</td>
<td>3.3.1. Consider the development of a national product certification scheme (voluntary) for carpets based on established standards.</td>
</tr>
<tr>
<td></td>
<td>• Set up an institutional and technical framework within the sector coordination platform from activity 2.1.2., such as a committee on quality standards for carpets, formed by public and private sector stakeholders.</td>
</tr>
<tr>
<td></td>
<td>• Review the quality standards and certification scheme developed by ACEG.</td>
</tr>
<tr>
<td></td>
<td>• Review the national standards already adopted by ANSA applicable to the carpet sector.</td>
</tr>
<tr>
<td></td>
<td>• Under the leadership of ANSA and in cooperation with carpet producers’ and exporters’ associations and other key stakeholders, assess whether additional standards are needed. Potential focus could be on:</td>
</tr>
<tr>
<td></td>
<td>– Quality of inputs</td>
</tr>
<tr>
<td></td>
<td>– Quality requirements for threads</td>
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<td></td>
<td>– Process-oriented standards for weaving, washing and/or cutting carpets.</td>
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<td></td>
<td>If such standards are required, request ANSA to include them in the annual workplan.</td>
</tr>
<tr>
<td></td>
<td>• ANSA to develop any missing standards through the Technical Committee, including all relevant public and private stakeholders, with carpet associations as a member.</td>
</tr>
<tr>
<td></td>
<td>• Disseminate the established certification scheme through:</td>
</tr>
<tr>
<td></td>
<td>– An awareness-raising campaign, involving workshops for producers’ associations and exporters, particularly in major production communities and weaving centres.</td>
</tr>
<tr>
<td></td>
<td>• Identify key public and private sector institutions which are the most suitable to support these workshops, considering their influence and reach in main producing regions.</td>
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<tr>
<td></td>
<td>• Conduct workshops for traders as well, so they effectively disseminate this information to producers they work with.</td>
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<tr>
<td>3.3.2. Strengthen the capacity of ANSA to evaluate and certify compliance with carpet standards.</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>• Technical assessment is carried out and recommendations are put in place accordingly</td>
</tr>
<tr>
<td></td>
<td>• Integrated pest management is developed and operational</td>
</tr>
<tr>
<td></td>
<td>• At least 50 responsible staff are trained on integrated pest management for carpet storage facilities through short courses</td>
</tr>
<tr>
<td></td>
<td>• National product certification scheme is developed and operational</td>
</tr>
<tr>
<td></td>
<td>• A guide is created and disseminated through newsletters and websites</td>
</tr>
<tr>
<td></td>
<td>• A comprehensive campaign is rolled out, including two workshops per year conducted in at least five main producing provinces</td>
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<td>• Conduct workshops for traders as well, so they effectively disseminate this information to producers they work with.</td>
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<td>3.3.3 Support pest control in carpet storage facilities.</td>
<td>2</td>
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<tr>
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<td>Operational Objectives</td>
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<tr>
<td>3.3. Improve quality management at the institutional and enterprise levels.</td>
<td>3.3.4. Develop Afghan technical regulations for imported wool to ensure proper grading or quality assurance.</td>
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<td>3.4. Facilitate improved access to land.</td>
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<td></td>
<td>3.5. Improve the provision of finance in the sector.</td>
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</tbody>
</table>
## Strategic objective 4: Strengthen market linkages and enterprise capabilities to forge/sustain buyer relationships through in-market support, branding and streamlining of customs procedures

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<th>Implementation period</th>
<th>Target</th>
<th>Lead and Supporting Implementers</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1. Enhance in-market support for carpet exporters.</td>
<td>4.1.1. Facilitate participation of carpet exporters in international fairs and exhibitions, in combination with business-to-business meetings in key target markets.</td>
<td>1</td>
<td>2017</td>
<td>• Four carpet enterprises are supported to participate in trade fairs per year</td>
<td>MoCI, Ministry of Foreign Affairs, ACCI, ACEG/associations</td>
</tr>
<tr>
<td></td>
<td>• Develop a grants mechanism through which firms can apply for monetary and logistical support to the events (examples include the International Carpet Exhibition in Xining and DOMOTEX).</td>
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<td></td>
<td>• Provide coaching and organizational support for:</td>
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<td></td>
<td>– Pre-event capacity-building workshops on market intelligence, Incoterms, negotiation skills, how to meet and follow up with foreign buyers, among others.</td>
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<td></td>
<td>– Visa applications where necessary.</td>
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<td></td>
<td>– One-on-one meetings with buyers.</td>
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<td></td>
<td>– Developing marketing collateral.</td>
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<td></td>
<td>4.1.2. Capacitate trade attaches in key international markets to enable them to provide relevant in-market support.</td>
<td>1</td>
<td>2017</td>
<td>• At least 15 trade attaches are trained in key international markets, including Pakistan, India, UAE and the United States</td>
<td>MoCI, Ministry of Foreign Affairs, ACCI, ACEG/associations</td>
</tr>
<tr>
<td></td>
<td>• Attachés to provide business support services to interested carpet exporters, such as:</td>
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<td></td>
<td>– Creation of a list of the host country’s import regulations and restrictions, and a list of potential importers/distributors.</td>
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<td></td>
<td>– Prepare guidance on pricing of carpets to ensure competitiveness in target markets while maximizing profits.</td>
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<tr>
<td></td>
<td>– Contact details of key buyers in the target market.</td>
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<tr>
<td></td>
<td>4.1.3. Cultivate intermediaries – professional consultants – who can help companies overcome technology and language barriers, and forge relationships with buyers.</td>
<td>2</td>
<td>2017</td>
<td>• Two short courses are conducted per year</td>
<td>MoCI, ACCI, ACEG/associations</td>
</tr>
<tr>
<td></td>
<td>• Create a short course tailored for the Afghan context on marketing, sales and client relationships, including curriculum and training materials.</td>
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<td></td>
<td>• Deliver short course to staff of consulting companies and independent consultants (e.g. on business advisory services) in Afghanistan.</td>
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<td></td>
<td>4.1.4. Through a feasibility study, evaluate the possibility of establishing warehouses and showrooms in key export markets as PPP. Launch a pilot in a key market and expand it, as required.</td>
<td>2</td>
<td>2017</td>
<td>• Feasibility study and pilot developed</td>
<td>MoCI, ACCI, Guild/Associations, MCIT, commercial banks</td>
</tr>
<tr>
<td></td>
<td>• Explore e-commerce potential for carpets through a sector study, analysing e-commerce readiness, markets and available online market tools, payment providers, logistics firms and information technology infrastructure companies.</td>
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<tr>
<td></td>
<td>• Select key target markets and examine consumer protection and e-transaction laws.</td>
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<tr>
<td></td>
<td>• Identify and select firms/cooperatives, which will benefit from the pilot initiative. Competitive selection to be based on several factors, including export readiness.</td>
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<td></td>
<td>• Provide capacity-building and technical assistance to selected firms/cooperatives, including:</td>
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<tr>
<td></td>
<td>– Setting up a website</td>
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<tr>
<td></td>
<td>– Online payment modality</td>
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<td></td>
<td>– Order fulfillment</td>
<td></td>
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<td></td>
<td>• Other functions, as required.</td>
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<tr>
<td></td>
<td>4.1.5. Develop a pilot initiative one-commerce for the carpet sector.</td>
<td>3</td>
<td>2017</td>
<td>• Five firms/cooperatives are selected • Pilot initiative is rolled out</td>
<td>MoCI, ACCI, ACEG/associations, Ministry of Communications and Information Technology, commercial banks</td>
</tr>
</tbody>
</table>
Strategic objective 4: Strengthen market linkages and enterprise capabilities to forge / sustain buyer relationships through in-market support, branding and streamlining of customs procedures

Operational Objectives | Activities | Priority  | Implementation period | Target | Lead and Supporting Iimplementers
--- | --- | --- | --- | --- | ---
4.2. Provide hand-holding support to develop the Afghan Carpets brand. | 4.2.1. Develop target market profiles serving as an essential source of up-to-date and relevant market intelligence informing Afghan carpet exporters. | 2 | 2017 2018 2019 2020 2021 2022 | Ten market profiles are developed and deployed | MoCI ACCI
| | • Topics to include consumption trends and preferences ( e.g. codes of conduct, certifications), product diversification opportunities, import requirements ( e.g. quality, flammability standards, labelling requirements) and procedures. Additional topics comprise interior design trends, including selection of patterns and colours per season of the year. | | | | |
| | A sustainable mechanism for updating and deploying the market profiles will be developed. | | | | |
| | Various mediums for deployment to be used, including websites, newsletters, etc. | | | | |
| | 4.2.2. Develop and print literature, brochures and product-specific catalogues and prepare short films to disseminate information regarding the ‘made in Afghanistan’ carpet industry, with the intention of building and promoting Afghanistan’s brand in the sector. | 2 | | | Ministry of Foreign Affairs MoCI, ACCI
| | Disseminate information through relevant ministries’ websites, consults, and in exhibitions and fairs. | | | | |
| | 4.2.3. Conduct a feasibility study / assessment to examine the potential establishment / costs and benefits of geographical indications for select types of Afghan carpets. The scope of the assessment will include the national as well as subnational level, in order to afford better legal protection to Afghan carpets and facilitate action for infringements. | 3 | | | MoCI (Intellectual Property Office)
| | A comprehensive campaign is developed, rolled out and updated annually, including the development of at least one short film on the ‘made in Afghanistan’ carpet industry. | | | | |
| | • A feasibility study is conducted and policies / measures are in place, as required | | | | |
| | Ten market profiles are developed and deployed | | | MoCI ACCI
| | • Mechanism for updating market profiles is in place | | | |
| | 4.3. Reduce Customs-related challenges faced by carpet exporters. | 2 | | | MoF, MoCI, ACCI, ACEG, associations. Afghanistan Customs Department
| | 4.3.1. Identify the most burdensome Customs procedures and common non-tariff measures constraining export of carpets. | | | | |
| | • Conduct a revision of Customs legislation affecting carpet exporters in particular through a survey, in order to streamline export procedures. Develop countermeasures accordingly, such as electronic submission of trade documents and transit-related payments to reduce the risk of corruption. | | | | |
| | • Create a trade obstacle alert system to alert relevant authorities about trade-related obstacles they face and post requests for assistance ( e.g. delays in receiving exporting documents). Mechanism to be coordinated with a wider institutional network (including the Export Promotion Agency of Afghanistan, Afghanistan Customs Department). | | | | |
| | • Increase transparency of transit and border regulations, including the publication of fees and formalities for exporting ( e.g. posters in Customs offices). | | | | |
| | • Train Customs personnel on borders which are key for the carpet sector ( e.g. with Pakistan) on streamlining export clearance from Afghanistan. Conduct awareness-raising workshops / campaigns aiming to change the mindset of personnel. | | | | |
| | Develop an initiative to provide specific training and mentoring services to carpet exporters to enable them to understand export procedures and legal obligations under cross-border Customs authorities. | | | | |
| | 4.3.2. Improve coordination with Customs authorities of neighbouring countries. | 3 | | | MoF, MoCI, Ministry of Foreign Affairs ACCI, ACEG / associations
| | Through bilateral discussions and the establishment of cooperation mechanisms and agreements ( e.g. Customs committees formed by two neighbouring countries’ Customs authorities), facilitate: | | | | |
| | • Data exchange on carpet trade between neighbouring countries. Coordinations with neighbours through the establishment of an action plan for compliance, smuggling prevention and coordinated controls. | | | | |
| | • Bilateral Customs committees are formed with at least two neighbouring countries | | | MoF MoCI, Ministry of Foreign Affairs, ACCI, ACEG / associations
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ITC (2016). Enhance export capacities of Asia’s least developed countries for intra-regional trade – Afghanistan’s exports to China (unpublished).


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