



The Herati Marketplace: Local Capacity and Opportunities for Local Procurement

Herat is traditionally known as the cultural and historical capital of Afghanistan. In late 2010, Building Markets conducted a research study on the Herati marketplace. Results of the study indicated that there are a number of high-quality goods and services being produced locally in the province that can meet international standards. Furthermore, suppliers are keen to meet the demands of international buyers. Increased local procurement will help develop the manufacturing sector and can lead to the expansion of associated sectors such as construction, finance and insurance.

The Herati marketplace exhibits desirable characteristics and has the potential to become a powerhouse of economic activity in Afghanistan, with its strong industrial base and burgeoning construction sector.

Obstacles to Local Procurement

Competition with Imports	Security & Transportation Costs	Difficulty Accessing Finance	Middlemen take Market Share	Middlemen take Market Share
Suppliers face competition with imported goods from regional neighbours, namely Iran and Turkmenistan. They have better infrastructure and are generally more secure than Afghanistan. Therefore imported goods are often cheaper than Afghan-made products.	The cost of doing business in Afghanistan is higher, thereby preventing suppliers from offering competitive prices. While Herat is relatively secure, the roads to the economic centers elsewhere in Afghanistan are not. Thus, Herati businesses are forced to pay high security costs for transportation.	Afghan companies do not have enough capital for business development. The government does not offer tax breaks, subsidies or long-term credit options and the high rates of interest (12-22%) with commercial banks make loans unattractive.	When buyers purchase from middlemen in Herat City, manufacturers do not receive all the profits, which means there is less money to reinvest in business. It also impedes direct contact between buyers and suppliers that would otherwise allow suppliers to address buyer concerns.	International buyers have different standards and often require different certifications. Local businesses are hesitant to get certifications without a guarantee that buyers will purchase their goods because it is a costly and time consuming process with no guarantee of a return on their investment.

From: Landry, K. (December 2010). *The Herati Marketplace: A look at the capacity of Herati suppliers and the opportunities for local procurement*. Kabul: Building Markets (Formerly Peace Dividend Trust)



Marketplace Capability

Despite these obstacles, there is an existing infrastructure in Herat that is capable of supporting and sustaining economic development. The city is relatively secure and has the inputs such as electricity, water and communications networks in place, which can support industrial development in the province. The Herati Industrial Park on the outskirts of the city has the **capacity to support 500 factories**, though only 100 were currently located there at the time of conducting this research. The industrial sector supports a workforce of about **12,000 laborers**, the majority of whom are employed in factories.

Of the 200 Herati businesses registered with Building Markets at the time of research, **42% operated in the construction sector**, while another **17% operated in the manufacturing sector**.