



Economic Policy Issues and Programs:

Leveraging Current U.S. Assistance in Afghanistan

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I. INTRODUCTION

After a 23-year period of conflict, Afghanistan's infrastructure, institutions and human capacity have been largely destroyed. Although the U.S. and international community have been involved in the reconstruction effort in Afghanistan for the past two years, the needs of the country are so great that continued assistance is needed in order to allow Afghanistan to become a stable and prosperous country.

Although donor pledges were made during the recent conference in Berlin, many of these pledges did not turn into commitments or get disbursed. There are also many areas that are currently not being funded due to the lack of information of needs, lack of donor coordination, and lack of funding. A funding program that targets critical needs, reaches a large portion of the population, is high-impact, and shows immediate progress would greatly improve the lives of the people in Afghanistan. This would also help strengthen the image of the international community in its efforts to help rebuild Afghanistan. This document covers economic, trade and investment policy issues as well as ways in which the United States can provide assistance to Afghanistan. The assistance will help build Afghanistan's legal economy and create jobs, which in turn will help in demobilization and help in the battle against narcotics.

The programs being suggested below focus on meeting critical needs, but also on developing the country's private sector and economy so that Afghans have the to become self-sufficient. This avoids creating a cycle of dependency and fosters the support needed to build sustainability.

Afghans are entrepreneurial, hard working and are seeking opportunities for education, training and jobs. The focus of projects should be to build a new generation of leaders in all sectors, and help Afghans develop partnerships with foreign companies. Incentives are needed to attract foreign direct investment and create public-private partnerships that could help stimulate and promote investment that would help create job opportunities and economic development. The projects identified should incorporate:

- Capacity and knowledge building
- Transfer of technology
- Job creation
- Export creation and promotion
- Private-sector orientation
- Reaching out to vulnerable groups (i.e., women, disabled and children)
- Distribution to population centers, as well as effectively reaching rural areas

One of the long-term goals identified is promotion of exports from Afghanistan. Stimulating Afghan exports has positive outcomes for the Afghan people, distributors and consumers. The other goals of job creation and training and capacity building are also important to overall reconstruction efforts. If we cannot provide jobs for the Afghan people with an income that will enable them to survive, then we will not be able to convince them that peace dividends pay off.

A primary focus of this document is also on needed trade-related infrastructure investments. Investing in the public sector in Afghanistan will help set the foundation for private sector investments. We must leverage private investments by providing public sector assistance. Private investment in Afghanistan should be encouraged because long-term economic stability in Afghanistan will benefit both Afghanistan and donors. Creating employment opportunities will assist in the demobilization of soldiers, combat narcotics and lead to less dependence on foreign aid.

Securing Afghanistan's Future (SAF), a governmental and international agency report prepared for the UN's international conference in March 2004 made several key findings. Most importantly, the report notes, "Growth in Afghanistan's non-drug economy on the order of 9 per cent per annum will be needed to ensure that there is acceptable, visible economic and social progress while eliminating the drug economy over time." In order to enable this growth, programs in the areas of security, institutions, capacity building and public infrastructure investments must be strengthened.

SAF noted that the sector priorities for private development include: (i) agriculture; (ii) transportation; (iii) energy; (iv) housing; (v) communications; (vi) banking and financial services; and over a longer timeframe (vii) tourism.

As we all know, the new Constitution of Afghanistan adopts a free market economy. Money is flowing in and out of the country through trade but the critical issue remains – **how do we move from trade to investment?** There are a number of lucrative investment opportunities in Afghanistan and the Afghan government is committed to providing an enabling environment for private investment. However, unless there is a substantial commitment by donors to help set the foundation for private investment, Afghanistan will continue to be an import-oriented economy dependent on foreign assistance. This is not the economic picture needed to help Afghanistan transition from tyranny to democracy.

II. OVERVIEW OF REQUESTS

This section provides an overview of the needs expounded upon in this document and covers the following areas: (1) Mechanisms to Improve Allocation of Economic Assistance; (2) A Trade Preference Act (3) A Trade Capacity Building Program; (4) Infrastructure Development; (5) Investment Promotion; (6) Technical Education and Training; and (7) Entrepreneurship Development for Disadvantaged Groups.

An overview of needs in these areas is outlined below and a description of the need can then be found in the corresponding section in the document. Based on *Securing Afghanistan's Future* and other sources, at least \$1.8 billion is needed for 2005 for the areas outlined above. Given the size of the supplemental and funding spent on military operations, this amount is a realistic target and one that will help produce real results, reducing Afghanistan's long-term aid dependency.

As seen below, a comprehensive approach is needed to jump-start the Afghan economy. There is no "magic bullet" that will solve the counter narcotics and demobilization issues- rather, setting the foundation for the infrastructure and institutions needed to support public-private partnerships is the key.



MECHANISMS TO IMPROVE ALLOCATION OF ASSISTANCE.....page 6

Program Recommendations:

Total Request for Supplemental:	\$160 million
Description	Funding Need
Direct support of successful Afghan Govt. Priority Programs (National Solidarity Program)	\$ 160 million

Policy Recommendations:

- Request for proposals by USAID and other agencies should include requirements for a certain percentage of local participation.
- Requests for proposals by USAID and other agencies should require training and capacity building to be embedded in implementation of all contracts and grants.
- Section 8A designation (minority or disadvantaged business) should be granted for Afghan-American companies. This will allow Afghan-Americans to participate more fully in the reconstruction process, a group that serves as a bridge between the U.S. and Afghanistan.

TRADE PREFERENCE ACT FOR AFGHANISTAN.....page 7

Policy Recommendations:

- GSP has not been enough to spur investment or create jobs in Afghanistan. A comprehensive Trade Preference Act that is authorized for a 20-year period, removing tariffs on goods from Afghanistan and incorporating a Trade Capacity Building Program, is needed to create markets for legal products to assist in counter narcotics efforts.
- Although there is a draft bill to extend certain trade preferences to certain least-developed countries (S. 191), it is insufficient for Afghanistan’s unique needs as a post-conflict country. Afghanistan is in the lowest tier of the least developed countries and is in need of a specific trade preference act that will encourage investment and job creation needed to combat narcotics.

TRADE CAPACITY BUILDING PROGRAM.....page 9

Total Request for Supplemental:	\$218.9 million
Description of Private Sector Capacity Building	Funding Need
Supporting Business Development Services	\$10 million
Launching the National Bureau of Standards and Meteorology	\$4.9 million
Identifying Sources of Credit for Afghan Producers	\$150 million
Supporting Feasibility and Market Assessments	\$10 million

Studies	
Implementing USAID programs in Information and Communication Technology	\$13 million

Description of Institutional Capacity Building	Funding Need
Creating a Trade and Export Agency	\$2 million
Expanding the Afghan Investment Support Agency	\$1.5 million
Improving the Marketing of Afghanistan	\$2 million
Increasing Commercial Legal Capacity	\$500,000
Developing a Niche Market in Artisanal Crafts	\$5 million
Improving Local Markets for Construction Services and Materials	\$10 million
Promoting Specialized Tourism	\$5 million
Facilitating U.S. Private Sector Involvement in Capacity Building	\$5 million

INFRASTRUCTURE DEVELOPMENT..... page 24

Total Request for Supplemental: \$1.275 billion

Description	Funding Need
Energy and Mining	\$431 million
Transportation and Transit	\$415 million
Water and Sanitation	\$200 million
Agriculture/Irrigation	\$229 million

INVESTMENT PROMOTION..... page 29

Total Request for Supplemental: \$114.5 million

Description	Funding Need
Support for USAID Global Development Alliance	\$100 million
Assessing Barriers to Investment	\$1.5 million
Supporting Commercial Law Reform	\$2 million
Increasing Number and Quality of Investor Conferences	\$1 million
Expanding Industrial Parks	\$10 million

Policy Recommendations:

- Ease OPIC’s high equity requirements to increase U.S. investment in Afghanistan. Due to perceptions of security, lack of information, and other obstacles, companies need more incentives to take the initial risk of investing.
- Support of Afghan trade delegations to meet with U.S. companies in the United States or to receive training through Department of Commerce or State Department programs.

EDUCATION AND VOCATIONAL TRAINING.....page 32

Total Request for Supplemental: \$10 million

Description	Funding Need
Afghan Institute of Technology	\$4.5 million
School of Business and Commerce	\$4.5 million
Visiting Teacher and Professor Fund	\$1 million

Policy Recommendation:

- Expand “MEET-USA” program to Afghanistan, which provides training for future business leaders.

SUPPORTING ENTREPRENEURSHIP IN DISADVANTAGED GROUPS.....page 34

Total Request for Supplemental: \$20 million

Description	Funding Need
Increasing assistance to Women Entrepreneurs	\$10 million
Disabled Person’s Enterprise Fund	\$10 million

Policy Recommendation:

- Inclusion of women in trade capacity building programs should be a requirement.

III. MECHANISMS TO IMPROVE ALLOCATION OF ECONOMIC ASSISTANCE

The United States and Afghanistan entered into a Trade and Investment Framework Agreement in Kabul on September 25, 2004. This provides a constructive mechanism to institutionalize U.S.-Afghan bilateral discussions on trade and investment. Under the TIFA, a joint U.S.-Afghan Council has been created to set out basic principles guiding the bilateral trade dialogue. The following issues are important to bilateral trade.

A. DIRECT SUPPORT FOR SUCCESSFUL AFGHAN NATIONAL GOVERNMENT PROGRAMS

As USAID’s White Paper entitled, *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (January 2004) states, “Foreign aid is essentially supportive, while local leadership, ownership and participation are critical.” The U.S. can use its foreign assistance in Afghanistan more efficiently by direct support of successful Afghan Government National Priority Programs. Programs such as the National Solidarity Program, that has provided block grants directly to villages, have proven they are successful and cost-effective. The NSP provides block grants of \$20,000 to \$60,000 to communities for projects and the community decides how the funds should be spent. Thus far, grants had been made to



6,000 villages, one fourth of Afghanistan's villages. One-third of the leadership of the community councils that decide upon the spending of the NSP funds were made up of women.

Congress has appropriated directly to the Human Rights Commission and Judicial Reform Commission so there is precedent for direct support of Afghan government programs. For strategic countries, "The full range of assistance instruments (e.g., program support, cash transfers, and general budget support) will be available in principle." As a strategic state, direct support for successful Afghan government programs should be considered.

The National Solidarity Program has provided block grants of \$20,000 to \$60,000 to villages, whose male and female shuras decide on how to spend the money. Examples of projects include building wells, rehabilitating schools and establishing maternal clinics. In building a democracy and supporting the parliamentary elections, it is important for the Afghan people to have a voice in the decision-making process and to see first-hand the tangible results of the reconstruction process. \$160 million towards this program would help block grants be administered to many more villages in Afghanistan, assisting in state-building and improving the outreach of the central government.

B. REQUIREMENTS FOR LOCAL CONTENT AND TRAINING

Another major policy issue is that local Afghans are being largely left out of reconstruction contracting opportunities. Direct contracting is not feasible given that they are awarded to U.S. firms. However, expanded subcontracting to Afghan companies is feasible. By contracting to Afghan companies, funding is more likely to be reinvested in the country, leading to less long-term dependency. It also addresses perception issues of local Afghans feeling that the US and other donors favor Pakistani, Turkish and Chinese companies.

One way that local Afghans Afghan-Americans can be included in the contracting process is through requirements in RFPs that a certain percentage of the contract would utilize the services of Afghan or Afghan-American companies. This simple step is something USAID has the power to do and for which Congressional support would be useful.

In addition, now that emergency humanitarian needs have been met, there should also be requirements in the contracting process that training of local Afghans will be built in to programs. If contractors have not built the capacity of local Afghans, the labor pool needed to build an economic base will not be created.

C. SECTION 8A (SMALL AND DISADVANTAGES) STATUS FOR AFGHAN-AMERICAN COMPANIES

Section 8A designation should be granted for Afghan-Americans. This would allow Afghan-Americans to qualify to receive consideration among other minorities contracting. Currently, Indian-Americans, who have one of the highest income earnings of foreign-born Americans, receive such designation and Afghan-Americans do not. Congressional authority is needed to make this happen.

IV. A TRADE PREFERENCE ACT FOR AFGHANISTAN

A Trade Preference Act (“TPA”) specifically for Afghanistan is needed because of its unique circumstances as a post-conflict country. The lack of infrastructure, under-educated population and illicit narcotics industry necessitate special consideration for Afghanistan. Tariff reduction and trade capacity building are important policy tools that can be used to assist Afghanistan.

While there are 5,700 items that are technically eligible for duty-free treatment under the Generalized System of Preferences (“GSP”), it has not been enough to spur foreign direct investment in Afghanistan. Most goods already available in Afghanistan, mainly agricultural and raw materials are already eligible. The Miscellaneous Tariff Bill passed in December 2004 also provides for duty free entry of handmade carpets from Afghanistan into the U.S.

The fact that Afghan exports to the U.S. continued to be negligent last year shows that additional measures must be taken to increase exports. Textiles (cotton, wool, karakul are some examples), apparel, leather and shoes are some of the items that are not eligible under GSP, but that are being produced in Afghanistan.

Because GSP has not been enough, Afghanistan needs a generous TPA. Given the narcotics and security issues in Afghanistan, it would not make sense to bundle Afghanistan with other countries in a regional TPA. Also, Afghanistan does not produce at a quantitative level that would pose a competitive threat to US domestic products in the near or long-term.

A TPA for Afghanistan will assist with counter-narcotics efforts. Similar to the Andean Trade Preference Act, an Afghan TPA’s primary goal should be to promote export diversification and broad based economic development that provides sustainable economic alternatives to drug-crop eradication. A comprehensive act that provides broader access to the U.S. market will help provide the investment and incentive to local Afghans to engage in legitimate economic activities. In reality, Afghanistan needs additional measures beyond what is included in the Andean Act given the country’s weak economy and infrastructure.

A TPA for Afghanistan should be tied to a Trade Capacity Building (“TCB”) program, with greater assistance to infrastructure improvements (the majority of this memo addresses TCB initiatives). Problems with infrastructure, education, logistics and other factors limit the development of legal exports.

There is precedent for trade preference acts to be closely tied to trade capacity building programs. For example, current U.S. TCB activities help developing countries take advantage of opportunities created by a specific trade preference act. In support of the African Growth and Opportunity Act (AGOA), for example, the U.S. Government assists qualifying countries to obtain textile visas, improve food safety, conduct pest risk assessments, identify markets, and establish direct business-to-business linkages with American firms. U.S. TCB assistance can also be channeled through yearly appropriations to complement existing trade preference programs. Since trade capacity building in Afghanistan is crucial for economic development, TCB authorizations can be tied into a Trade Preference Act for Afghanistan



for at least the first ten years.

A TPA for Afghanistan must have flexible eligibility requirements as well as training so exporters in Afghanistan will know how to use the program. The rules of origin should not be defined too narrowly. For example, the provisions in the Andean and Caribbean Basin Initiative (“CBI”) providing duty-free access only for products made with US yarn or fabric would not be realistic to implement in Afghanistan due to logistics.

The time span of a TPA for Afghanistan is also important. An Afghan TPA would be more effective if it is a multi-year enactment instead of recurrent yearly renewals. Since Afghanistan has suffered from conflict for over 23 years, it will need at least that much time, if not more, to be on the level playing field with even other Least Developed Countries in the region.

V. CONGRESSIONAL APPROPRIATION FOR A TRADE CAPACITY BUILDING PROGRAM

A trade preference program in itself would not make a big impact on the Afghan economy due to infrastructure and facilitation issues. A program that focused not only on tariffs, but also included assistance for trade facilitation would make a bigger impact. Given the narcotics and security issues in Afghanistan, Afghanistan needs special consideration and should receive such a preference through part of a comprehensive trade package.

USAID has carried out successful initiatives as part of such programs in other areas of the world. These programs are generally known as “*Trade Capacity Building*.” Through Trade Capacity Building, assistance for institutional and capacity building, infrastructure development, and other activities to develop the private sector can be made possible.

The USAID Economic Governance program tackled many of the issues needed in order to build public administration and capacity. The next step is a program that focuses upon improving trade facilitation. USAID has carried out successful TCB initiatives as part of such programs in other areas of the world. If a Congressional appropriation can be made specifically for this purpose, it would focus USAID on TCB initiatives. Once Congress appropriates for a Trade Capacity Building program, USAID can implement it, using successful models it has utilized in other countries tailored to Afghanistan’s needs.

U.S. TCB initiative will support the economic growth needed to sustain alternative livelihoods, which are critical to the fight against narcotics and demobilization.

A. AFGHAN GOVERNMENT INITIATIVES

The Afghan government has taken many initiatives during the past three years to improve trade and investment. However, donor assistance is needed in order to implement the programs that the Government has identified as crucial to economic development.

Afghanistan has joined the World Customs Organization. The Government approved new laws for central banking and the regulation of all other banks on September 15, 2003. The Government established a single-window clearance and advice center (Afghanistan Investment Support Agency – AISA), with assistance from GTZ, for foreign and domestic investors to focus efforts to rebuild investor confidence. The office is designed to cut through the red tape of investment.

Afghanistan has secured key trade concessions from the United States (GSP), Europe (EBA), Japan (LDC) and India. However, additional measures are needed to bring Afghanistan on the same playing field as even other LDCs exporting to these countries. Thus, additional concessions and support for trade capacity building programs are needed.

In December 2002, the Ministry of Commerce initiated and signed a trilateral treaty with Iran and India, which has established the reconstruction of Chabahar port and has helped to connect freeways, reducing transit for Afghan goods by 700 km. Negotiations were pursued in 2004 with regional neighbors such as Pakistan, Uzbekistan and Tajikistan for further trade and transit concessions.

Afghanistan has signed a Declaration on *Encouraging Closer Trade, Transit, and Investment Cooperation between the Signatory Governments of the Kabul Declaration* with China, Iran, Tajikistan, Turkmenistan and Uzbekistan. The declaration is a commitment to forge new trade dynamics and foster investment between the signatory countries. The German development agency, GTZ, and the Ministry of Commerce have put forward reform proposals to strengthen the Government's longer-term capacity to accelerate industrial park development. USAID is now supporting the implementation of industrial park development in Kabul, Mazar-e-Sharif and Kandahar.

The Government is doing what it can to improve the legal and regulatory environment. The Government is in the process of preparing or holding consultations on a wide-ranging set of new laws, including trade in goods and services, and laws on economic governance such as bankruptcy, competition and land use. In September 2002, the Government passed a new law on investment covering both domestic and foreign investment. The investment law seeks to encourage foreign and domestic private investment and business activity in Afghanistan rather than control and limit private sector activity. A revision of "Law on Domestic and Foreign Private Investment in Afghanistan" is underway in order to improve upon the law.

After a relatively short period of time, the Afghan government has re-established a professional central bank. Afghanistan has brought stability to its currency and established control over inflation. After enacting a Banking Law, several foreign banks quickly applied for licenses and there are now over six foreign commercial banks operating in Afghanistan.

The Government's key objective is to provide an enabling environment for activities carried out by the private sector. The Afghan government has already worked on a Trade, Industry and Private Sector (TIPS) Program that outlines needs in this area. Thus, priorities in this area have already been identified.

Immediate TIPS initiatives include establishing a trade regime with low and predictable tariffs and an explicit negative list that removes the potential for discretion and streamlining customs procedures and



trade legislation. Medium to long-term TIPS initiatives include establishing a standards and certification body and supporting trade missions.

B. TRADE FLOWS

Based on an UNDP and World Bank survey around the borders of Afghanistan, total trade with Pakistan and Iran (Afghanistan's main trading partners), including transit traffic, bilateral trade and unofficial trade was US \$2,048 million in 2001. Overall, commercial imports have risen to about US\$ 2.4 billion, double the projected value of 2001. COMTRADE statistics revealed in 2003 that of 46 countries that reported their trade with Afghanistan, 35 reported an increase. Officially, reported imports in 2002 (US\$851 million) were up 50 percent over 2001.

However, exports from Afghanistan are at very low levels. Despite decades of underdevelopment, Afghanistan still produces a range of tradable goods that could provide the basis for the development of an export sector. Afghanistan's most promising export commodities include agricultural produce, textiles (including carpets), stone and marble, and leather products.

C. KEY CONSTRAINTS

Security threats, large opium drug business, and the slower than expected progress on infrastructure reconstruction are all threatening to undermine the sustainability of the achievements made thus far.

Other constraints are institutional capacity. The Ministry of Commerce needs assistance to build its capacity to develop a sound policy and underlying analysis for trade, investment and private sector development. For example, although, the Export Promotion Department has an explicit mandate to promote and facilitate exports, it suffers from very weak capacity. Trade guilds lack basic resources such as telephones, faxes, computers and internet connectivity. The Afghan Chamber of Commerce and Industries (ACCI) acts differently from similar organizations in other countries. It is often a barrier to promotional activities and suffers from weak capacity.

Another constraint is the lack of mechanisms to coordination amongst the various ministries that deal with trade, investment and private sector issues and lack of wider understanding of trade and investment and private sector issues. Lack of capacity in *public management* and a *large informal private sector* that is 'street wise' but equally lacking in capacity and does not see apparent incentives to formalize its ways of doing business are also constraints for which trade capacity building programs could assist.

There is also work that must be done on the country's regulatory framework as the Government has inherited numerous trade regulatory tools that are inappropriate, out-dated and seldom enforced. Another area is standards regulations. Since there are no parameters to test the standards of imports, Afghanistan is becoming a dumping ground for sub-standard goods. This absence creates a non-tariff barrier.

The low literacy levels and lack of other formal training facilities, qualified management level and service staff makes it difficult to ascertain the nature of the labor force. The nature of the labor force is



not clearly defined, therefore it is difficult to formalize macro economic, trade and industrial policies.

The Afghan Diaspora has, in many cases, built significant capital over time. Much of this is in the Gulf area and in Iran and Pakistan. They are well networked to return as productive investments. Programs should be instituted that help leverage the ability of Afghan expatriate capital.

The unfair, illegal and ad hoc claims to lands and the lack of judicial capacity to deal with these claims make it difficult to rely upon these land claims for commercial uses. The formulation of industrial policy is hampered by lack of physical infrastructure, human capital and resources. Infrastructure and logistical constraints include missing roads and bridges, lack of focus on an entire trade logistics infrastructure, and inadequate border facilities.

D. COMPONENTS OF TRADE CAPACITY BUILDING PROGRAM

The solution to the problems and challenges identified above is to fund a Trade Capacity Building (“TCB”) for Afghanistan, which can be channeled primarily through USAID. USAID can then work jointly with the Afghan government to implement programs and projects that will address these specific issues. This public investment will pay off, as it will help the legal economy of Afghanistan to grow, reduce the need for Afghan farmers to grow poppy, assist in job creation, increase exports, and raise the capacity of Afghans to engage in trade. This in turn will decrease Afghanistan’s long-term dependency on U.S. foreign aid.

Some of the constraints to building Afghanistan’s private sector include lack of access to financing and capital, need for information about Afghan products, lack of distribution and marketing channels for Afghan products in international markets, lack of food and agricultural processing and packaging facilities in the country, lack of programs focusing on education and training for local Afghan businesspersons in management, finance, accounting, international business and other subjects, lack of access to the internet by local businesspersons, and lack of information on local Afghan companies for foreign companies to form partnerships/joint ventures.

1. The U.S. Approach

The President’s Trade Policy Agenda for 2003 stated that the “United States is committed to expanding the circle of nations that benefit from global trade...[and] to help[ing] developing economies build the capacity to take part in trade negotiations, implement the rules, and seize opportunities. The U.S. works with developing countries to assess their TCB needs, identify immediate and long-term priorities, and develop national action plans. On this basis, the U.S. focuses its TCB efforts on initiatives that will yield tangible and timely results.”

The United States is undertaking TCB activities to improve prosperity and reduce global poverty around the world. The U.S. has supported the implementation of many trade capacity building projects, including trade facilitation (consisting of lowering costs of engaging in international trade), support for workforce skills development and labor standards, financial sector development, trade-related infrastructure development, agricultural development, support to services sectors, and governance.



Key coordination agencies include USAID, USTR, State Department, USDA, and the Commercial Law Development Program of the Department of Commerce. U.S. TCB activities are strengthened by the technical expertise of specialized agencies, including the Departments of Agriculture, Energy, Interior, Justice, and Transportation.

U.S. assistance agencies deploy a range of new tools that allow them to respond quickly in areas of high demand. These areas include quantitative economic and trade analysis, customs and trade facilitation, SPS (food safety, animal health, and plant health) issues, and commercial and institutional reform. New tools include a Commercial Law Diagnostic Tool, a Customs Valuation Training Manual, and the International Trade Centre's TradeMap to provide access to trade data and analysis.

The U.S. also has an Integrated Framework ("IF") approach to TCB efforts. The primary goal of IF is to mainstream least developed countries into the global trading system. For example, in Senegal, these funds supported projects in critical areas such as international negotiations, export promotion, marketing of agricultural products, and the modernization of telecommunications infrastructure. Thus, a goal for U.S. TCB assistance for Afghanistan could also be mainstreaming Afghanistan into the global trading system.

Afghanistan needs a TCB program that will focus on institutional and capacity building, infrastructure issues and other activities to develop the private sector. Currently, many initiatives can be addressed through the USAID Economic Governance Program, but in order to take the next step, a Trade Facilitation program is needed.

2. Supporting Business Development Services

Business Development Services as identified by *Securing Afghanistan's Future* as:

- Identifying and prioritizing sectors and enterprises within with the potential for maximum value-addition, based on a detailed survey/study;
- Technical support through Business Development Centers to small and medium enterprises to create local resources, raw materials and jobs;
- Arranging trade fairs, exhibitions and foreign exposure visits for local manufacturers to align local production capabilities with international best practices;
- Support for the Afghan private sector so that Afghan companies can develop partnerships or joint ventures with U.S. companies;
- Developing vocational training facilities to promote indigenous skills and provide additional employment and income generating opportunities.

Afghans are entrepreneurs and assistance in business development would quickly lead to changes. A professor at Stanford University engaged in a study of the Afghan market shortly after the fall of the Taliban. What she found interesting was that although Afghanistan had undergone greater destruction than the former Soviet republics, she found there to be greater promise for a free market economy in

Afghanistan. She stated this was the case because the Afghan people were entrepreneurial and did not have to be taught how to pursue business opportunities. Rather, she found that the Afghan people needed basic tools that would help them compete in international markets.

Although Afghans are entrepreneurial by culture, they lack access to basic information and skills to build a private market economy that can compete with international markets. Currently, there is extremely limited access to information for Afghan businesspersons. This creates a bottleneck and slows down the response of the Afghan market to changes in supply and demand.

In addition, Afghan businesses are largely being left out of the contracting process that is taking place with donor supported funds because prime contractors are unable to locate Afghan businesses. There is no commercial directory and most local businesses are not equipped with computer and Internet connections that would enable them to market their businesses online.

The effect of this is that business is not going to local Afghan companies and is being given to foreign companies from Pakistan, Turkey, China and other countries in the region. This does not assist the growth of the Afghan economy as those companies are not likely to reinvest the money in Afghanistan, but will repatriate it to their home countries. In addition, Afghan labor is in many cases not being used even when it is available as foreign companies are using the contract to procure workers from their own countries. This can create political problems when qualified Afghans with no jobs see foreign workers being employed and they feel that the reconstruction process is leaving them out.

Support for business development assistance would meet this critical need and would increase the capacity of local Afghan companies so they can become stronger and compete with foreign companies. Programs could provide internet access and training, a conference center for meetings and seminars, provision of marketing services, and other services that would support the local Afghan business community. In order to become self-sustaining, business development centers could provide services on a fee basis to foreign investors and businesspersons who need logistical and support services in Afghanistan. Business Development Centers could also assist in locating Afghan businesses in particular sectors, enabling Afghan businesses to enter into partnerships and joint ventures with foreign companies. This would help enable their participation in the Afghan market.

U.S. TCB initiatives have assisted with such activities in other developing countries. For example, they have helped introduce information and marketing technologies, including those that promote e-commerce and direct business-to-business linkages with potential trade partners around the world. U.S. assistance agencies also collaborate with American entrepreneurs and business managers who volunteer to share their knowledge and expertise with private sector counterparts in the developing world. Afghanistan would benefit enormously from such U.S. TCB assistance.

3. Launching National Bureau of Standards and Meteorology

Afghanistan has become a dumping ground for bad products due to lack of standards, import and customs control and low purchasing power of Afghan consumers. Why are standards needed? First, they are needed to facilitate trade, to avoid the use of Afghanistan as dumping ground for unsafe and



unhealthy products, to support the health of the environment, to improve the quality of products being imported into the country, and to protect the safety of consumers.

A standards program in Afghanistan has been a priority for the Ministry of Commerce since 2003, but technical assistance and funding to implement the program have not been forthcoming.

USTDA has supported an assessment and has sent a consultant to Kabul on a definitional mission.

However, the assessment will not mean anything unless it can be implemented.

The United States provides assistance to strengthen plant, animal, human health, and environmental measures in developing countries and USAID has had great success in supporting these programs.

When the Andean Community countries unanimously identified SPS as their top priority for TCB assistance, USAID and the USDA established an agricultural health program that helped countries understand and accelerate implementation of their obligations under the WTO SPS agreement. Activities include training in risk assessment, developing technical research and indices for regional pests and animal diseases, and designing an information and surveillance system for plant and animal health issues in the region.

In addition, USAID assistance has introduced shrimp exporters in Bangladesh to hygienic processing practices and to environmentally friendly freshwater species. Further, through a Seal of Quality Program, the United States has helped the industry establish private third-party testing laboratories to ensure producers meet quality standards and establish international credibility. Exporters are required to meet international codes. As a result of implementing these industry “best practices,” shrimp exports from Bangladesh have already grown by roughly 30%, to over \$350 million.

When African countries voiced concern about their ability to comply with U.S. agricultural regulations and thereby maximize their benefits under AGOA, the U.S. government responded with practical, targeted assistance. The USDA assigned an official from its Animal Plant and Health Inspection Service (APHIS) to the Global Competitiveness Hub in Botswana to advise southern African nations on agricultural trade within the region and internationally. The assistance has paid immediate dividends.

Another successful U.S. TCB program is in Ghana. Small and medium-scale agricultural exporters in Ghana needed to improve their phytosanitary standards and expand their variety of crops to compete in global markets. In response, USAID formed a partnership with a large grocery retailer, a university, and other private sector organizations to provide expertise on meeting these standards. In addition to new sales of premium pineapples, this partnership enabled exporters to meet SPS standards, expand market access, and increase the value of exported products.

4. Identifying Sources of Credit for Afghan Producers

Access to capital is one of the major constraints on development of the private sector in Afghanistan. Currently, foreign banks have opened, but none offer lending services. A recent Business Climate survey undertaken by the Afghan-American Chamber of Commerce shows that local Afghan companies face extreme difficulties accessing even small amounts of capital and operate on a month-to-month basis. With additional capital, businesses can expand and grow.



a. *OPIC Middle Market Lending Facility*

OPIC proposed a Middle Market Lending Facility for Afghanistan late last year. Earlier in 2004, OPIC approved a \$150 million Middle Market Lending Facility for Iraq. Afghanistan desperately needs such a lending facility. This would provide a mechanism for OPIC to make one loan to a U.S. intermediary, who can then lend to local Afghan banks or local Afghan companies.

The size of the fund proposed by OPIC was \$50 million over a 7-year period, with an additional \$6.5 million needed from donor funds for its start-up costs. Given that Afghanistan is roughly the same population and size as Iraq, the fund size should be greater than \$50 million. Arguments of ability to absorb are not persuasive because one of the biggest factors preventing increased capacity to absorb is lack of capital. In addition, once OPIC goes through the process of approving the fund, it will be set for \$50 million over a 7-year period. Given the length of the fund's life, the size of the Middle Market Lending Facility for Afghanistan should be at least \$150 million, the same size as provided for Iraq.

In addition, OPIC's line of credit for Afghanistan should be increased so that additional investments can be promoted in the country.

b. *Enterprise Development Fund*

In 2003, Congress authorized \$300 million for a 5-year period in 2003 for an Enterprise Development Fund, but the funding was never appropriated. From past experience, influential members of Congress have not supported enterprise funds given problems that took place in Russia and some Eastern European countries. However, there are some arguments to be made in favor of an "Enterprise Fund" concept given successes in Bulgaria and other countries. The key is how they are structured, who has decision-making power, what is done when the term of the fund expires, etc.

One option is to structure an EDF as a perpetual trust fund or revolving loan fund, over which a prominent Board of Directors would govern. The Board of Directors could be comprised of the private sector, government and civic groups and could act as a "watch group" over the funds. Profits from the EDF could be utilized to pay for its operational costs and could also be re-invested in other private sector projects to generate additional revenue. Thus, this fund would not only provide seed capital for projects, but would grow over time, essentially a U.S. investment in Afghanistan's economy. Afghanistan needs a "boost" in investment and mechanisms to leverage private investment are one way to achieve quick results.

Another option is to allocate the funding authorized for the EDF into the OPIC Middle Market Lending Facility. The policy objective is getting capital and training in the hands of Afghan entrepreneurs and either avenue would accomplish that.

The unique aspect of these projects is that it will help support private sector enterprise, will address the gap in financing that exists, and will be a profitable venture that will create additional opportunities in the future.

5. Feasibility and Market Assessment Studies

A TCB program can also assist with providing market and feasibility studies for specific sectors. The process to fund feasibility and market studies thus far has been slow and cannot meet market demands. If a TCB program could support feasibility and market studies, it would greatly assist in investment promotion. These studies can be shared widely, allowing companies, including the U.S. private sector, to invest based on concrete information.

6. Information and Communication Technology

Funding for Information and Communication Technology (ICT) through USAID's development work in Afghanistan could lead to quick impact results that would benefit economic and social progress. USAID is a leader in helping developing nations close the digital divide and apply ICT to all sectors of development. To ensure the rapid and innovative adoption of ICT across sectors, USAID established a new office of Energy and Information Technology (EIT) within the Economic Growth, Agriculture and Trade (EGAT) Bureau. 95% of more than 80 USAID Missions worldwide have one or more ICT (Information and Communication Technology) activities in their portfolio. 30% of activities focus on ICT as a sector and 70% on ICT as a development tool.

The Internet and related information technologies have increased the importance of ICT as sector in its own right, driving economic growth and transforming social and economic activity.

There are five elements of USAID's strategic approach to ICT for development:

- Policy Reform
- Access
- Capacity Building
- Applications
- Partnerships

In the area of partnerships, USAID has collaborated with Cisco Systems to expand workforce training for ICT technicians to 89 Cisco Academies in 32 countries with over 5,000 students enrolled – 25 percent of them women. Cisco Certified Networking Academy LDC (Least Developed Country) Initiative trains students in the world's least developed countries for jobs in the Internet economy. The partnership also addresses the gender digital divide through the Gender Initiative aimed at increasing women and girls' access to IT training and career opportunities.

The *Digital Opportunity through Technology and Communications (DOT-COM) Alliance* is a partnership with the Academy for Educational Development, Internews, Inc., and the Education Development Center involving over 75 affiliated institutions – each with specialized expertise in using ICT for development. USAID has also created partnerships with higher education institutions in this area. ICT programs can also leverage work being done in business development services.

The *Digital Freedom Initiative (DFI)*, launched in 2003, places volunteers in businesses and community

centers in Senegal, Indonesia, and Peru to provide small business and entrepreneurs with ICT skills and knowledge. DFI includes practical assistance to businesses as they identify real opportunities to leverage existing infrastructure (e.g., in-country cybercafes and telecenters); to generate information and services; and to help entrepreneurs and small businesses better compete in both the regional and global marketplace. With assistance from the U.S. FCC, the DFI will help to develop pro-growth regulatory and legal structures, where needed, to enhance business competitiveness. The goal is to increase business activity, develop more efficient markets, create more jobs, and help establish a business-friendly regulatory framework in DFI beneficiary countries.

To meet the access policy goal, USAID has announced the *Last Mile Initiative* to bring the benefits of communication to those in rural and disadvantaged areas. There are twelve USAID programs designed assist in overcoming social, economic, and infrastructure constraints to ICT access:

- Providing affordable access of ICTs to underserved populations.
- Developing and sustaining public access telecenters. Telecenters in various forms (cybercafes, computer labs, business centers, and so on) developed with local partners and often based on commercial principles are important means of ICT access in the developing world. Demand for telecenter services is often present but frequently needs to be uncovered and nurtured through special programs.
- Overcoming insufficient infrastructure in rural and disadvantaged areas. Outside the main urban centers, innovative technical solutions must be applied to overcome problematic telecommunication links. Both terrestrial and satellite wireless technologies hold particular promise for reaching the greatest number of rural areas.
- Seeking and creating locally relevant software and content. People not familiar with 'Internet' languages, cannot take advantage of the vast amount of available content and applications.
- Ensuring equal access to ICTs for women and girls. In all ICT activities, ensuring equal access for women and girls is key.
- Photovoltaic (PV) technologies can be used to bring telephony, distance education, and access to the Internet to the more isolated communities located beyond the electric grid.

In the area of capacity building, USAID has joined with IBM, the Bank of Brazil, and other firms to create IT workforce-training centers for youth in poor communities in Brazil. Similar programs are available in other countries.

Key USAID achievements include those throughout the Eastern European region, USAID is combining ICT and business training to develop ICT businesses. In these countries, a large number of ICT start-up companies are being formed. While these companies have the technical skills, they often lack general business knowledge that makes them truly competitive in the world marketplace. USAID is assisting these companies by providing training in business plan development and by providing technical assistance to make the firms more appealing to venture capitalists.

In Kazakhstan, USAID has supported the U.S. Telecommunications Training Institute (USTTI), which offers training courses to telecommunications officials from 164 countries allowing them to keep up

with these dramatic changes. The USTTI curriculum has significantly expanded and now boasts 87 courses for scholars, engineers, and policymakers. USAID provides scholarships for USTTI participants from developing countries and often assists with the selection of candidates through USAID Missions.

In agriculture, ICT facilitates knowledge sharing within and among a variety of agriculture networks including researchers, importers/exporters, extension services, and farmers. ICT enables vital information flows by linking rural agricultural communities to the Internet, both in terms of accessing information and providing local content. USAID ICT activities in agriculture include using Internet and e-mail for extension purposes, communicating agro-meteorological information, communicating market price information, facilitating networks of agriculture researchers, and developing land registries.

In economic growth, ICT provides the developing world with access to the digital economy. Using ICT, local businesses can reach a global marketplace, access real-time market information, improve internal efficiencies and processes, and complete business transactions electronically. USAID ICT activities in economic growth include information service applications including market pricing, export requirements, and public commodity auctions, promotion support applications including distribution of information on a product, sales support applications including ordering, payment, delivery, and business-to-business applications including inventory and invoicing.

The Jobs Opportunities and Business Support (JOBS) Program—sponsored by USAID and implemented by the University of Maryland’s IRIS Center—implements e-commerce to help entire industries. The JOBS program illustrates how innovative business development services can leverage a variety of e-commerce tools across business processes to help an industry prosper, dramatically increasing exports, revenue to local businesses, and employment for women.

In women and development, ICT is an important tool that can provide access to resources that lead women out of poverty. However, the gender gap in ICT is of increasing concern. If access to and use of these technologies is directly linked to social and economic development, then it is imperative to ensure that women in developing countries understand the significance of these technologies and use them. USAID ICT activities in the women in development sector include extending ICT access to women as knowledge beneficiaries, developing ICT capacity for women as knowledge experts/producers, improving job opportunities for women who develop ICT skills, and using ICT to combat the trafficking of women and girls.

Thus, USAID’s response has been a multi-pronged approach to help developing countries build their ICT sectors, working with both public and private sector partners. Areas of focus include supporting innovative ICT workforce development opportunities for students, out-of-school youth, and adults and building management and operational capacity of individual private sector firms in the ICT sector.

Overall, \$1 of USAID funds matched with \$1.50 of leveraged funds where USAID is working with other partners to develop the ICT sector. Developing countries look to the U.S. for ICT know-how, technology, management, and business development, and U.S. companies are often anxious to provide that expertise.

Appropriations for ICT initiatives in USAID’s development work in Afghanistan could greatly leverage current efforts and lead to quick impact results that can affect economic and social development.

7. Trade-Related Institutional Capacity Building

Currently, US Government assistance is being channeled through consulting firms that fund advisors to Ministries. This is appreciated and helpful for short-term capacity building, but is not the solution for long-term needs. As USAID has stated, “The strength and performance of institutions, particularly as evidenced in the quality of governance and rule of law, are the primary determinants of development. Resource transfer in the absence of institutional capacity does not yield sustainable outcomes.”

a. *Creating a Trade and Export Promotion Agency*

Last year, imports to Afghanistan were approximated to be worth \$1 billion and exports only worth \$100 million. This 10:1 trade deficit must be improved for the economy to be sustainable. In order for the economy to grow and for jobs to be created, policies and programs must be supported that will increase Afghan exports.

Currently, there is no export promotion program in Afghanistan that addresses issues such as labeling, certificates of origin, advertising, marketing, assessments/market studies and other activities that support the Afghan market and enables it to produce products that meet international standards. The Ministry of Commerce has an Export Promotion Department, but it needs additional human capital and resources.

Thus, an effective Trade and Export Promotion Agency (TEPA) is desperately needed in Afghanistan. Currently, US Government assistance is being channeled through consulting firms that fund advisors to Ministries. Afghanistan needs institutions, not just advisors. GTZ helped start AISA, an institution that is now functioning well in a short period of time. It is something that will last and will be remembered as a German contribution to the reconstruction process in Afghanistan.

The U.S. has supported projects to strengthen the capacity of public agencies to design and implement sound policies that promote economic growth. Given the US’s expertise in export and market promotion, we need USAID assistance to establish, train and provide funding for initial management of a TEPA. The institutional structure of this agency could be modeled after AISA.

The Department of Commerce could also be asked to send one of its experienced export promotion officials to Afghanistan to help establish the TEPA and train local Afghans who would manage the agency. For example, the Trade Promotion Coordinating Committee (TPCC) -- an interagency committee chaired by the Department of Commerce -- has worked with other governments to help establish an export promotion agency that effectively promotes exports while also seeking to attract foreign investment. Once the U.S. helps to establish such an institution and trains Afghans to manage it, it will become a self-sufficient institution that will have a great impact on one of the major policy issues- the need to create supports.

b. *Expanding the Horizons of the Afghan Investment Support Agency*



This is the “one-stop-shop” for investors. AISA should expand from not just a resource for investors once they arrive in Kabul, but to a proactive institution that seeks out investment opportunities for the country.

The next step is to draft a business plan for AISA and determine where responsibility for export promotion and investment promotion would lie. US TCB assistance to build the capacity of AISA would also be beneficial to economic development.

c. *Improving Marketing of Afghanistan*

Each country around the world is like a salesperson- they are trying to “sell” their country as a place to do business and invest. In this increasingly competitive market, the Afghan government must initiate efforts to promote Afghanistan as an emerging market. Public perception can change incentives for investors, as well as tourists. The stereotype that people have that Afghanistan is still consumed with conflict and that it is not even possible to do business there must be changed.

A *Country Branding* strategy- one that would create a logo that can be used to identify with Afghanistan in a positive way- and a “Made in Afghanistan” label that could be used by the private sector would be a good export promotion and investment promotion tool. Government efforts in Spain with “Everything Under the Sun,” Mexico with “Beyond Your Expectations” and others have been powerful marketing tools to lure travelers and business people to those countries. In Colombia, the Juan Valdez persona was used to market coffee, which led to higher prices obtained for coffee from Colombia than similar coffee from Ethiopia.

This can also be done with products from Afghanistan, such as carpets. A U.S. supported TCB program could help make this possible.

d. *Increasing Commercial Legal Capacity*

An Office of Legal Counsel is needed in order to provide continuing legal advice to the Afghan government on contracts and policies. This should be done through the USAID Rule of Law program. Consulting companies should not spend the funding to hire consultants, who leave after a year, but to employ and increase the long-term capacity of the institutions. Knowledge-transfer must be embedded in these programs. Otherwise, they are short-term fixes that do not address long-term capacity building.

8. Developing a Niche Market in Artisanal Crafts

Given the phasing out of the Multi Fiber Arrangement, which will take away quota limitations for WTO members and the comparative advantage of China and India, it would be very difficult for Afghanistan to be competitive in the market for mass produced textile goods. Also, this industry is more prone to small shifts in labor prices and is movable.

Afghanistan should focus on niche markets that require specialized skills, such as adding detailed

embroidery to mass produced pieces to increase the item's value and handmade carpets. This could be competitive since the items are unique and can be marketed differently.

Carpets and handmade items, which employ at least 1 million people, are not being marketed properly to obtain better returns for producers. Rugs are Pakistan's 4th largest export, many of them are made by Afghan refugees. Afghanistan needs to attract as many rug weavers back into the country as possible.

In order to attract rug weavers back from Pakistan, Afghanistan should assess programs specifically for this group. These could include setting up special "artisan work areas," that could also become focal points for tourism promotion. This approach has been used by the government of Morocco and has revitalized traditional artisan and handicraft industries. Afghanistan should support such programs because it will create jobs and increase exports from the country. It will also help to attract tourism, as it will give tourists a place to visit and view traditional craft making. Other incentives, such as providing subsidies to weavers, could be used so that they can afford medical care, housing and can send their children to school if they return to Afghanistan.

Currently, there are many products that are being made in Afghanistan that are unique and high quality. These products include handicrafts, carpets, leather products, handmade wood products, jewelry and handmade metal products. However, producers do not have access to information in order to sell their products in international markets. Thus, they rely on dealers in Pakistan or other neighboring countries, who merely mark up the products and retain the majority of the profits.

Examples of U.S. assistance include supporting a business development services grant program to help promote crafts suitable for export and to link artisans with overseas importers.

An organization that focuses on providing such assistance is Aid to Artisans. Such a program would provide training on marketing, design and business organization directly to producers. Afghan producers need training and information in order to increase sales of their products. Assistance on a nationwide scale to increase exports will address the huge trade deficit that exists and will help create job opportunities.

An Aid to Artisan program in areas where there is production of unique products would have a high and visible impact on the Afghan economy. By training Afghan producers on how they can market their carpets directly in international markets, an immediate boost to the Afghan economy could be seen in a short period of time. Since designers and marketers would be brought to Afghanistan to lead training and Afghan producers would be brought to the U.S. to attend trade exhibits and to meet wholesalers and retailers, it would also create people-people connections that would strengthen U.S.-Afghan relations. It would show Afghans that donors in the U.S. are directly assisting them to sustain their livelihoods long-term.

Aid to Artisans is a non-profit organization whose expertise could be beneficial to Afghanistan, but they have not yet received support from USAID. A TCB program could be utilized by USAID to support such programs.

9. Improving Local Markets for Construction Services and Materials

This sector is booming, but it is disorganized. Afghanistan needs investments that would allow for better companies that can manage projects locally. This would allow local companies to lower cost, but to increase efficiency. With reconstruction projects taking place in Afghanistan, it is very important that local products and materials be used, especially cement. Cement is currently being imported largely from Pakistan, who saw huge increases in its exports in this sector last year. The quality of cement coming from Pakistan is reportedly very low and poses risks to the health and safety of Afghan citizens. In addition to this, processing raw products locally creates jobs and adds value in the country.

USTDA completed a construction materials definitional mission in December 2003. The Ministry of Commerce requested in August 2004 that USTDA begin working on a construction materials study. Two private sector companies in the U.S. have expressed interest in setting up cement plants in Afghanistan. However, without any incentives from the public sector, such as funding for the feasibility study, public-private partnerships or loans, it will be extremely difficult to attract credible investment in this sector.

10. Promoting Specialized Tourism

There is great potential for tourism over the longer term. Development of tourism is crucially dependant on security and over time, adequate tourism infrastructure. Eco-tourism and adventure tourism are areas where Afghanistan can find a niche.

Tourism creates jobs and produces revenue for the country. *Securing Afghanistan's Future* includes projects that will improve facilities and promote tourism. Afghanistan can develop niche markets for historical, adventure and eco-tourism. Hotels being built, including Hyatt and Kabul Serena, will improve tourism. We can consider giving incentives to local companies to offer tourism services. These incentives could be grants so the initial financial burden of starting and operating such companies is decreased until they receive a customer base. The more that the local sector in Afghanistan is involved in tourism and travel, the easier it will be to attract foreign individuals (and along with them their money to spend in the country).

Promoting hotel developing in other cities such as Herat, Mazar-e-Sharif and Kandahar is also needed. Incentives for companies to develop hotels in these secondary cities should be considered. Incentives could be modeled after those given by governments in inner city areas of the U.S., where investment was difficult to obtain due to security fears. Many areas in Washington, DC and New York have been revitalized because of such public-private partnerships and incentives. The Afghan government needs assistance to formulate and fund such incentives to develop sectors that are not going to attract investment based only on market signals.

11. Facilitating U.S. Private Sector Involvement in Capacity Building

Rather than focusing on corporate social responsibility as a way to get the private sector to invest, we can call upon companies to provide training programs, especially in areas where it is to learn to use their



product. For example, Hewlett Packard and IBM have training programs that can be offered by established USAID programs. Some companies may also contribute to established training programs through their corporate donations. As these companies get more linked to Afghanistan and become more familiar with the country, we are better poised to market opportunities to them.

V. INFRASTRUCTURE DEVELOPMENT

In Iraq, U.S. assistance began reconstruction of Iraq's electricity plants, bridges, water systems and other infrastructure within a few weeks of the collapse of the regime and a country-wide assessment of the country's critical economic infrastructure was completed, with work implementing needs quickly started. Infrastructure development has been slow in the three years since the fall of the Taliban. U.S. assistance in this area should now be a priority.

A. ENERGY AND MINING

Afghanistan is rich in primary energy resources such as coal and natural gas, and has significant hydropower resources. However, only 6% of the population has access to electricity. Energy is critical for national development and this resource base must be developed in order to increase economic growth. Without electricity, no industry can be developed. Currently, Afghanistan depends on imports, which account for about half of total commercial energy consumption.

The Afghan government is committed to encouraging private sector investment by providing a regulatory framework and will introduce a law that would create an independent electricity regulatory entity. Afghan GAS (the gas utility) is under consideration for commercialization.

Gas reserves are estimated at about 120 billion cubic meters (m^3), sufficient to support significant gas-fired electric power production. However, present gas utilization is only about 0.6 million m^3 per day because production and transportation facilities are lacking.

Signs of growth include Iran financing the transmission lines to interconnect the city of Herat and India financing the detailed design and construction for the missing link between Kabul and Pul-e-Khumri. The World Bank, The Asian Development Bank, the United States Trade and Development Agency (USTDA), the United States Agency for International Development (USAID), the United States Geological Survey (USGS) and the British Geological Survey have provided assistance to the hydrocarbon sector.

Constraints in this sector include that infrastructure of the country's energy sector is in a state of decline and shortage of expertise and unavailability of spare parts and equipment due to lack of funding. Petroleum product storage is also inadequate and could be a potential source for growth.

Energy in rural areas is extremely lacking and limits commercial development. This would provide 50 megawatts of energy in areas where the water resources exist to support it. This type of power would



also have a minimal effect on the environment.

In the next 2-3 years, the Afghan government needs to focus on planning a transmission line to move power from Central to South Asia. The Afghan government needs assistance with multi-year Power Purchase Agreements. From the perspective of investors, a payment system is crucial. Risk guarantees that will help promote investment in Afghanistan, especially for larger projects such as power projects, would also be helpful in generating private sector investment.

Afghanistan also has rich underground and mineral resources. Developing a mining industry would provide long-term employment in the country. The potential for mining is considerable. Oil and gas reserves could be significant and natural gas was exploited in the 1970s and 1980s. To develop this sector, the Afghan government would like to rehabilitate some existing mines, but wants to put the main emphasis on attracting new private sector investment.

There is potential for coal, gemstones, construction materials, semiprecious stones, quarry materials, and marble and dimension stone. Chrome, barite, sulfur, talc, magnesium, mica, marble, asbestos, nickel, lead, zinc, bauxite, lithium have also been identified in Afghanistan.

New private sector investment could be made in a medium-sized copper mine. Future development could include the development of very large iron ore deposits. There are currently unexploited gold deposits and future development could include the development of one or two gold mines. There are industrial minerals and private sector investment could be made in a new salt mine.

The challenges to development of this sector include investor perception of the difficulties of doing business in Afghanistan, constraints on funding from international markets for exploration and development, and unexploded ordnances & lack of access to infrastructure.

In addition, the exploitation of bulk natural resources will only occur with the development of a comprehensive rail network as these materials are bulky. Shortage of skilled labor will require contracting in foreign exports initially to develop these sectors.

Support for remote sensing and mapping would help provide the information needed to promote private sector investment. Although the U.S Geological Survey is supporting basic mapping, more pinpointed mapping is needed to identify areas in which resources could be exploited. Remote sensing would map the country and identify where existing minerals are located. Training would also be needed to teach the government how to use the maps and develop a plan. This would then provide the tools needed for the government to enter into public-private partnerships, joint ventures or licensing agreements. A U.S. TCB program could support such an important initiative.

B. TRANSPORTATION

Rehabilitation of existing major national highways is underway and a number of other roads have been repaired under the National Emergency Employment Program (NEEP). There is a need to pave many more secondary and tertiary roads. This could be done through contracting to local Afghan construction

companies, which also creates job opportunities and supports the local economy. A plan could be formulated that would identify what roads would be the best places to target that would provide farm to market access for rural areas.

Because it will take years for grids to become available in rural areas, solar energy provides a quick solution with little environmental impact. Solar energy projects have helped support residential and commercial operations in many countries with similar infrastructure problems. US TCB assistance should also include support for solar energy solutions to help Afghanistan's rural areas, where the majority of the population resides, to access electricity for residential and industrial purposes. If there are visible signs of change in the rural areas, the population will be less susceptible to extremist influences, which frequently use arguments that there is no incentive to participate in the reconstruction process.

The exploitation of bulk natural resources will only occur with the development of a comprehensive rail network. The feasibility study for the railway link between Chaman and Kandahar has already been completed. The option for a rail link becomes more attractive when placed in the context of the existing rail infrastructure in the Central Asian Republics. USAID is supporting \$34 million in work on bridges, road and railways, including the construction of 72 km of new track for the Iraqi Republic Railways system. USAID should receive funding to support railway development in Afghanistan as well.

Pakistan's monopoly on its railways is one of the few profitable areas for the state. The Afghan government has recommended allowing a joint Afghan-Pakistani company to manage cars destined for Afghanistan so there is predictability. The company could track the shipments using today's technology. We need to ensure that Pakistan will dedicate wagons for transit trade so the goods can go directly from Karachi to Afghanistan. If railways were developed in Afghanistan, this could provide a route for transit connecting Central and South Asia and help reduce transport times for shipments.

C. TRANSIT

Afghanistan is a member of the *Convention on International Transport of Goods under the TIR Carnets* and is streamlining and implementing transit procedures under the TIR carnet through computer software developed to link the regional border offices. UNCTAD has started the phased implementation of its Automated System for Customs Declaration (ASYCUDA) to streamline procedures for trade and transit, create transparency, and increase custom duties collection.

The Afghan government has sought to advance transit relations and cooperation within the region and simplify transparency of border policies through bilateral and multilateral transit agreements. Afghanistan has entered transit agreements with the following countries: Iran (Chabahar), Uzbekistan, India, Iraq, Pakistan and Turkey.

The Afghan government has sought to measure progress in transit by setting benchmarks. The goal set for transit between Karachi and Kabul is one week. In order to meet goals, funding is needed to improve cargo handling at customs points and at airports.

In Iraq, the U.S. fixed ports and airports through the Disaster Assistant Response Team so that supplies could reach the country. The U.S. also completed a \$45 million program to restore Umm Qasr port's ability to process food and handle commercial shipments. USAID also spent \$47 million rehabilitating Baghdad and Basra airports, improving the transport of humanitarian and commercial goods.

U.S. assistance to improve customs infrastructure and processing in Afghanistan should also be a priority as it will increase the country's ability to engage in international trade and generate revenue. Building physical road infrastructure to remove barriers to transit, increase economic business activities, and increasing security are some of the measures that can be taken.

D. WATER AND SANITATION

U.S. assistance is needed in Afghanistan to build the basic infrastructure needed to support an economic base. In Iraq, the U.S. helped built a new water treatment plant early on. The U.S. is spent \$217 million repairing water systems throughout Iraq. In Baghdad, one water plant was expanded three sewage plants were repaired, back-up electrical generators were provided to 41 Baghdad water facilities, and four sewage treatment plants were repaired in Baghdad. Other U.S. rehabilitation projects in Iraq include two water plants and four sewage plants in Najaf, Karbala and Hillah, the entire Sweet Water Canal system near Basra, the Safwan water system and water and sewage plants in Kirkuk and Mosul.

Afghanistan's water and sewage treatment infrastructure is nonexistent and is needed to battle the high death rate from water borne diseases and also to provide the infrastructure needed to build an industrial base.

New technologies can also be supported to deal with waste management. For example, biothermal waste removal creates energy out of waste. Funding could be provided to the government initially for these disposal facilities they can eventually be privatized as the income of Afghans increase.

Heat generated turbines could be utilized as an energy source. This source of power would provide 10 to 50 megawatts of energy. In some areas of Afghanistan, energy from wind is being used. This source of energy could also be used where electric or micro hydropower is not feasible.

However, in the area of insurance, much work remains to be accomplished. The country is chronically underinsured. The Afghan National Insurance Company (ANIC) is the only insurance company operating in the country. ANIC is underinsured and suffers from lack of trained staff. Without insurance, many investors (international and domestic) are likely to abandon interest in Afghanistan.

E. AGRICULTURE/IRRIGATION

Afghanistan is an agriculture-based economy. The main crops grown are cereal crops, mostly wheat. Afghanistan, a once thriving agrarian society, has been heavily dependent upon food aid from international donors due to wartime destruction as well as one of the worst droughts in living memory. Agriculture serves as the main source of livelihood for over 75% of the Afghan population and is an important sector of the economy accounting for over 50% of GDP and most of the exports.



This area is not to be overlooked given its importance historically in Afghanistan's economy and the focus on creating alternative livelihoods. Currently, USAID and USDA are working on programs and technical capacity building in this sector, but more needs to be done. The Ministry of Agriculture and Animal Husbandry, Ministry of Irrigation, Water Resources and Environment plans to privatize of state-owned enterprises. Until then, public resources are needed to develop this sector.

Afghanistan needs promotion of investments in this sector. Productivity currently is only 1/8 of other middle-income countries so there is a lot of room for growth. Anything that adds value in the country, rather than just exporting raw materials, is positive.

Problems in developing this sector include inadequate infrastructure, outdated farming practices and technologies, inadequate market knowledge, lack of agricultural credit, and lack of processing and packaging facilities. For example, grapes, apricots, almonds, and raisins are products that are potential exports, but there is little value-added processes available in the country. Diversification will increase average income per hectare, helping to battle opium production. Dairy farming and animal husbandry are also potential sources of income for Afghans.

Resources are needed to build and repair irrigation facilities. Expansion of irrigation will lead to increased productivity of land and bring previously non-arable land under cultivation. Technical training in improved irrigation techniques will also increase yields. Other areas of need include post harvest support in marketing of output and income stabilization through crop insurance.

Also, Afghans lack the connections to market their products. Trade capacity building project to help promote joint ventures and partnerships and incentives for ownership of Afghan companies can greatly assist in economic growth.

U.S. TCB assistance can make a great impact on this sector. A large and growing number of U.S. agricultural sector projects enable developing-country farmers and rural entrepreneurs to integrate themselves into international food and agriculture markets. For example, USAID, working with U.S. land grant universities and other research centers, provides users in some countries with the latest production and processing technologies. It has also formed alliances with regional supermarkets and other private sector partners to help producers meet the high safety and quality standards of major international markets. U.S. rural development projects help governments and farmers obtain access to real time price and other information on global markets.

Other examples of U.S. assistance include the following:

- U.S. helped small-scale coffee growers in Nicaragua shift to higher-quality coffees, expand sales in organic coffee markets, and process their beans more efficiently.
- In Africa, the AfricaLink project is a catalyst for agricultural research institutes all over the region to use the Internet to share information and technical knowledge.
- In Haiti, 35,000 farmers were assisted with product marketing training, which led to increased exports of high-quality cocoa and fair trade coffee.



In Afghanistan, there are many high quality and great tasting agricultural product including grapes, pomegranates, apples, apricots, melons, dried fruits, nuts and spices. However, the technology and facilities are lacking that would provide access to proper processing, packaging and storing facilities that would allow the products to have value-added input in Afghanistan and that could be promoted to international markets.

Investment with the private sector in this area would have a significant impact on the profitability of the agricultural sector, thereby serving as competition to the narcotics trade. Loans and grants for technical assistance could be used as the means to support this area.

Storage and warehouse space are needed to support agricultural production and marketing. Either a leasing model or selling shares in the warehouses could be used to offer ownership in this infrastructure. In that way, the local farmers and distributors would have ownership and keep the system running efficiently and based on market principles. Public-private partnerships in this area would be beneficial.

A program that would provide agricredits to farmers and distributors and would provide funds for technical assessment for market assessments, feasibility studies and other activities to support agricultural development would provide the flexibility needed to meet the needs of this sector.

Commodities sales by USDA can be used to generate income for projects. Funding from a USDA supported commodity sale could then be targeted into a rural credit program, building the country's economic base. The USDA Commodity Import Program is another USDA program that could be beneficial. This has been used successfully in Egypt and would allow Afghan farmers to import U.S. agricultural equipment and supplies at low interest rates. This would lead to more efficient farming methods and better crop yields.

VI. INVESTMENT PROMOTION

The Afghan government is committed to developing a supportive and credible strategy for generating foreign investor confidence and interest. The challenges to promoting private investment in Afghanistan include:

- Perception of physical threat and insecurity
- Absence of functioning commercial legal and regulatory environment;
- Absence of markets providing access to business inputs including capital, land, labor, utilities and financial and telecommunications services.

Programs to address the need to promote additional foreign direct investment are listed below.

A. CREATING RISK MITIGATION STRUCTURES

Due to infrastructure issues and perceptions regarding security in Afghanistan, risk mitigation is

extremely important to attracting investment. Experience from other post-conflict situations needs to be utilized- what was risk assessment in other post-conflict countries? Public-private partnerships are instruments that have worked well in the past.

The United States can remove some of the barriers in utilizing existing risk mechanism structures, such as OPIC. OPIC's requirements are geared towards conservative investments. OPIC should be encouraged to streamline their approval process for Afghanistan and to remove requirements that are making it difficult for many investors to receive funding.

1. Global Development Alliance

The Global Development Alliance ("GDA") is a USAID program that allows USAID to match private sector investments in developing countries. However, USAID has not implemented this program in Afghanistan. The GDA and other alliance-building mechanisms can also help foster a more vibrant and effective civil society as a force for public sector accountability and responsiveness." The GDA should be implemented immediately in Afghanistan as it provides an incentive for companies to enter the market in Afghanistan.

For example, through a Global Development Alliance (GDA) grant, USAID and Cisco Systems are partnering to provide \$350,000 in scholarships for approximately 500 women in Algeria, Morocco, Tunisia, Bangladesh, Nepal, Mongolia, and Sri Lanka, to attend Academies in their country. The GDA facilitates agreements between companies, nonprofits, and government agencies that maximize the benefit of USAID assistance dollars. These alliances bring significant new resources, ideas, technologies, and partners to bear on ICT problems in countries where USAID works.

2. Attracting Diaspora Capital

Many of the largest investments in the country have been through joint partnerships with Afghan expatriates (Coca Cola and Hyatt for example). USAID should take steps to identify ways to attract this capital back into the country. The issue of land titles is very important as expatriates have encountered corruption and lack of enforcement of valid titles. If expatriates have such negative experiences, they will not take the risk to bring in capital.

One possible initiative is to have the Global Development Alliance allocated to attracting diaspora capital. More favorable conditions include providing a matching fund for Afghan Americans. Part of the reason investment is not higher under OPIC is the inability of Afghan Americans to meet the high equity requirements. However, the lack of equity is outweighed by the willingness of the expatriate community to take risk and their knowledge of Afghan business economy and culture.

3. Promoting Joint Ventures with US Companies

Creating mechanisms to help link foreign companies with local companies is extremely important in order to help build the Afghan economy.

The business visa issue for Afghans to come to the U.S. needs to be addressed. Without this, Afghans cannot engage in dialogue with US companies and enter into joint ventures or partnerships. A system for the businessperson to put up a bond could be established.

Trade delegations from Afghanistan to the United States were promised last June and to date, not one Afghan business delegation has been invited to the U.S. for a trade show or training. There are numerous trade shows that take place each year in the U.S. Attending these shows would help establish business-to-business links. Simple training sessions could complement the visit so the business people enhance their skills to continue their business relationships when they return to Afghanistan. Advocacy for support of Afghan trade delegations to meet with U.S. companies in the U.S. or to receive training to Department of Commerce and State Department is integral.

4. Establishing Franchising Relationships with US Companies

Franchising is a good way to get distribution channels and established businesses in Afghanistan. There are good partnership opportunities between US franchisers and Afghan franchisees. Franchises receive better consideration for financing from OPIC and IFC. A program that facilitates franchise between US and Afghan business should be implemented.

5. Funding for Land Mine Removal for Private Initiatives

Afghanistan is one of the most heavily mined countries in the world. More than 100 people fall victim to mines and unexploded ordnance in Afghanistan every month. This is a significant barrier to entry for businesses that want to invest. It has greatly impeded the re-establishment of many business sectors, especially the agriculture sector. There are several groups already involved in supporting mine removal.

A program whereby a private sector entity could apply for assistance with land mine removal for an area that they want to develop or use for a business is one way to address this barrier to investment. In this way, there is an incentive to develop areas outside of major population centers that also prevents deaths and maiming from land mines.

B. TRADE-RELATED REGULATORY REFORM

1. Assessing Barriers to Investment

In order to make Afghanistan investor-friendly, barriers to investment and trade must be reduced. A table of key fundamentals and benchmarks for progress are needed. Regulatory and administrative burdens to investing and doing business in Afghanistan must also be identified.

The World Bank will be completing a *Doing Business Survey* of Afghanistan and the country's first *Investment Climate Study*. These will both provide insights into current strengths and weaknesses and will provide a baseline study to improve Afghanistan's regulatory and legal environment.

A U.S. TCB program could utilize information compiled by the World Bank and others and assist the

Afghan government in coming up with a strategy to address the barriers to trade and investment identified.

2. Supporting Commercial Law Reform

The Commercial Law Project of the Center for International Management Education and ABA-Asia Law Initiative continues to provide pro bono technical assistance to the Afghan government to improve the legal environment. This program has not received any funding from the U.S. government. As part of a U.S. TCB program, funding should be considered for this program so that progress made in the past two years can continue.

D. INCREASING NUMBER AND QUALITY OF INVESTOR CONFERENCES

There were many conferences that brought together investors and companies interested in doing business in Afghanistan. These include the June 2003 Rebuilding Afghanistan conference in Chicago, the two US Business and Trade Missions organized by the Ministry of Commerce and Embassy of Afghanistan in Washington, D.C., the investor conference in Berlin in March 2004, the ECO conference in March 2004 and the Trade Exhibition in Kabul in September 2004.

In order to leverage upon these opportunities, these conferences should bring together potential investors, multilateral institutions, donor governments and the Afghan government. In this way, those with funding and knowledge of development of the sectors are brought together with investors who have an interest. This also decreases the time that an investor will take from interest to actual investment. Direct support for a series of investor conferences, focusing on specific sectors would be highly beneficial.

E. EXPANDING INDUSTRIAL PARKS

Due to the destruction of infrastructure and time it will take to provide the infrastructure in many parts of the country, support for industrial parks would provide the land, sewer, water, electricity and support needed to attract investment. Currently, two smaller industrial park projects are being planned by USAID. However, these small projects are just a beginning and must be implemented on a larger scale in order to affect the Afghan economy.

Similar to the Enterprise Development Fund, industrial parks would be an investment that would generate revenue. They are not charitable projects that are not self-sustaining. The parks would be state of the art and could be modeled after the industrial parks in Jebel Ali in the United Arab Emirates that have been extremely successful in attracting foreign direct investment. They would range from 100 acres to 500 acres and provide office space and infrastructure needed to quickly attract foreign investment. Investors would lease office, warehousing, or land to build a factory. In order to ensure smooth operations, the funds and parks would be overseen by a management company.

VII. EDUCATION AND VOCATIONAL TRAINING

A. SUPPORTING TRAINING PROGRAMS IN BUSINESS AND TECHNOLOGY-



RELATED AREAS

A free market economy cannot function without a skilled and trained pool in the labor force. Training programs in business, management, accounting, finance, and technology-related areas are desperately needed in Afghanistan.

To meet immediate needs while such long-term education and training programs are established, short-term training programs can be funded. For example, the State Department manages “MEET-USA,” a program that provides training for future business leaders from 15 countries in the Middle East and North Africa and is funded by the Middle East Partnership Initiative. The program helps up and coming managers and future business leaders across the region to gain management skills, network, and meet Americans with similar business interests. This program could be expanded and offered for business leaders from Afghanistan.

1. Afghan Institute of Technology

There is currently a need for technical education to train a skilled workforce. This will help attract investment and can be tailored towards the industries in which there is interest or potential for private sector investment. In the past, there was an *Afghan Institute of Technology*. However, this no longer exists and could be re-established. The Institute could be located within the university system or outside as a private institution and serve college-level students. In order to train a national workforce, there should be a main campus in Kabul, with 4 locations in the north, east, west and south of the country.

2. School of Business and Commerce

There is currently no school of business or commerce in Afghanistan. The new constitution adopted a free market system. However, civil servants and the private sector must be trained in modern concepts of business, management and commerce in order to compete in the international market. In the past, a high school that focused on commerce was operational, but it no longer exists. A School of Business and Commerce should be established, either within the university system or outside as a private institution. Similar to the Afghan Institute of Technology, there should be a main campus in Kabul, with four locations in the north, east, west and south of the country.

B. VISITING TEACHER AND PROFESSOR FUND

There is great interest on the part of teachers and professors from abroad to teach in Afghan schools or universities for a semester or one year. However, there are currently no funds to cover the cost of travel and accommodations for these teachers and professors. Most teachers and professors would likely be willing to serve as volunteers and thus an honorarium would not be needed. A Visiting Teacher and Professor Fund would provide a way for a program to be instituted that would allow professors from around the world to teach business, management and technology-related courses at Afghan schools and universities. This creates cultural dialogue, which benefits Afghan students and Afghan faculty. The visiting professors will also benefit by gaining a better sense of the needs and challenges facing Afghanistan.

VIII. SUPPORTING ENTREPRENEURSHIP IN DISADVANTAGED GROUPS

A. INTEGRATING WOMEN'S ENTREPRENEURSHIP IN PRIVATE SECTOR PROGRAMS

Afghan women make up a majority of the country's population and women now serve as heads of households. Their inclusion in the business and trade sector is important to the survival of Afghan families. Afghan women have proven in the past two years that they can learn quickly, they are driven and that given opportunities, they can succeed.

The Afghan government supports initiatives that can help increase the capacity of Afghan women in business and trade and supports the requirement that all TCB initiatives include special attention to women.

B. INCREASING ASSISTANCE TO WOMEN ENTRPRENEURS

The Entrepreneurship Development Office for Afghan Women (EDAW), supported by the Ministry of Commerce and USAID, has been a fundamental institution in changing the norms of women in business. EDAW provides training in English, computers, basic business skills and support for trade shows and exhibitions. It has also started the Afghan Women's Business Association and Afghan Women in Business Journal.

As part of a U.S. TCB program, resources for EDAW could be identified to continue and expand its programs to the provinces. EDAW could continue working with US institutions and universities to bring Afghan women to the U.S. for training and to support training programs in Afghanistan. A U.S. TCB program could support mechanisms that will create partnerships between Afghan businesswomen and U.S. businesspersons, including meeting with women's business associations in the U.S. to foster linkages. A "Made by Afghan Women" label could be promoted and resources identified for the



Afghan Women's Business Association.

Women have also benefited from micro-lending programs and a segment of Afghan women now have the skills to borrow larger sums of money to run businesses. Afghan women have one of the highest repayment rates (98%) in micro-lending programs worldwide.

A U.S. TCB program should include special attention to providing funding to these projects, including assistance to a Afghan Women's Enterprise Fund. The Afghan Women's Enterprise Fund could provide grants or low interest loans to Afghan women to start their own business. This could be part of the OPIC Middle Market Lending Facility and/or Enterprise Development Fund. Because women are a disadvantaged group in Afghanistan, special attention must be focused on providing the tools that Afghan women need not only to rejoin the labor force, but also to become leaders and business owners.

C. DISABLED PERSON'S ENTERPRISE FUND

There are approximately 1 million disabled persons in Afghanistan that are faced with unique challenges. Since this group is also disadvantaged, special attention needs to be paid in order to level the playing field. In addition to special programs at Business Assistance Centers for disabled persons and programs at vocational schools, a Disabled Person's Enterprise Fund should be set-aside that provides grants to disabled persons that want to start or expand businesses. Similar to the fund for women, there could be special set-asides for this group in the OPIC Middle Market Lending Facility and/or Enterprise Development Fund.

IX. CONCLUSION

The needs of Afghanistan in the area of economic development are great and the challenges many. However, by identifying the above components and tying specific action items for each, we will have goals to reach. We will know what we want and how to get there and be able to focus our energies on projects within defined parameters, rather than a haphazard approach. In order to accomplish these goals, we will need the sustained assistance of the United States. The suggested programs and policy recommendations focus on meeting not only critical needs, but also developing the private sector and economy. In the long run, investments made now in economic and trade programs will pay off and help reduce Afghanistan's dependency on foreign economic assistance