



Afghanistan Chamber Of Commerce & Industries
اتاق تجارت و صنایع افغانستان
د افغانستان د سوداګرۍ او صنایعو اتاق

National Business Agenda

FOR AFGHANISTAN

March 27, 2011

The Afghan Business Agenda Advisory Committee



The Afghan Business Agenda Advisory Committee

Is an ad hoc coalition of 11 Afghan business associations and chambers of commerce interested in improving the business environment throughout Afghanistan. The coalition was formed to engage a broad spectrum of Afghanistan's business community in a consultative process to identify their concerns, and promote constructive solutions to policy leaders in the form of a National Business Agenda.





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I. FORWARD

A National Business Agenda (NBA) is an advocacy tool created by the business community, in a given country, to improve the commercial environment in which businesses operate. NBAs identify laws and regulations that hinder business activity and thwart economic growth and job creation. They also offer concrete policy recommendations and specific legislative or regulatory reforms to remove these barriers and improve the business climate. The key element of an NBA is the active participation of the business community in formulating it and then advocating effectively for the implementation of its recommendations. The NBA enables businesses from across the country to formulate and to articulate the challenges they face and their policy needs in a democratic way. It offers a mechanism that can be used to approach relevant officials in line ministries and members of parliament to inform them of the challenges facing the country's businesses and to promote sensible reforms to remove those barriers.

This National Business Agenda for Afghanistan is the result of a partnership between the Afghanistan Chamber of Commerce and Industry (ACCI), the national apex chamber of commerce in the country, and a coalition of 10 other mostly sectoral Afghan business associations. The associations making up the coalition represented the major sectors of the formal Afghan economy including women entrepreneurs. An Advisory Committee was established, chaired by ACCI, but with representation from each of the other 10 participating associations. The Advisory Committee was charged with providing strategic guidance for the NBA process, with overseeing its work and approving the set of recommendations contained in this final NBA report.

To ensure that this NBA reflects the views of common Afghan businesses, the Advisory Committee hosted five regional NBA meetings held between November 2 and December 28, 2010. These meetings were held in Herat, Kandahar, Kabul, Jalalabad, and Mazar-e-Sharif, with a total attendance of over 1,300 business people. All of the meetings were marked by vigorous discussion and debate among the participants. During each meeting, participants were divided into sectoral committees reflecting the major commercial sectors prevalent in that particular region. These sectoral committees were tasked with identifying specific issues that negatively affected the business enabling environment in their region and to provide specific policy recommendations that should be taken to remedy those issues.

Many of these recommendations address issues that affect the business community generally, across sectors and in numerous regions. Other issues presented may adversely affect only particular key Afghan business sectors or predominantly apply only to particular regions – but with serious detrimental effect to those areas. In selecting the items listed in the final NBA report, the Advisory Committee took great care in highlighting issues around which a broad segment of the business community could rally, as it is ultimately the responsibility of the business community itself to advocate directly with relevant government officials to see that these recommendations are acted upon and fully implemented. It also took into account ensuring that all key sectors and all the regions of Afghanistan canvassed had a stake in seeing the NBA recommendations implemented.

Regrettably, there were some issues of importance to significant numbers of businesspeople that could not be included in this report for various reasons. We trust that there will be future opportunities to tackle those problems.

While the participants recognize that it is unlikely that all of the recommendations contained herein will be implemented, it is our sincere belief that these issues are among the highest policy priorities that our government could be considering at this time, and these recommendations deserve the genuine and considered attention of officials throughout the government as well as a commitment by those same officials to act, in an expeditious manner, on as many of the recommendations as possible.

II. INTRODUCTION

While the Afghan economy as a whole has shown fairly solid growth rates since the Taliban was removed from power, that growth has not been broad-based across all industrial sectors or widely felt by the population. With many adult Afghans still unemployed or underemployed, and with a significant percentage of the population being youth who will need jobs in the near future, it is imperative that the country's economy grow at a pace fast enough to provide the economic opportunity, jobs and livelihoods that the Afghan people need. There are many issues that prevent the Afghan economy from reaching its full potential, and we have outlined a number of those challenges in this NBA.

Over the past nine years, the Government of Afghanistan has enacted a series of reforms designed to improve the business climate for both domestic industry and foreign investment. Nevertheless, the business environment remains one of the most dangerous, dysfunctional and difficult in the world. For instance, the 2011 World Bank Doing Business Indicators for Afghanistan show the nation ranked 167 out of 183 countries, including ranking in last place on three of the criteria (protecting investors, trading across borders, and closing a business).

Business people in Afghanistan, however, do not need business climate surveys to tell them how difficult the commercial environment is. We live it each and every day. However, this NBA enables us, the Afghan business community, to tell our own story about the many challenges we face in operating our businesses and the changes in policies we want our government to make.

The major goals of this National Business Agenda (NBA) are the following:

- Attract greater involvement of business people and associations, from all of the major commercial sectors, in proposing changes in public policies that will result in a more favorable business environment in Afghanistan.
- Create a legal and regulatory environment that will contribute positively to the faster development of those elements of the private sector that are most important for generating commerce, economic growth and job creation.
- Provide a strong rationale for these policy changes and demonstrate how they would bring about more predictable and sustainable opportunities for investments, business creation or expansion, and economic growth that benefit all Afghans.

In order to achieve these objectives, this NBA presents a number of policy recommendations in relation to Afghanistan's business environment that can help to remove key obstacles to commerce and business growth. Specifically, the NBA will provide recommendations in the following major areas:

- Tax and Tariff Reform
- Lack of Land and High Rent for Businesses
- Lack of Credit and Other Banking Reform
- Trade Facilitation
- Burdensome Laws, Regulations and Administration

- Lack of Infrastructure
- Sector Specific Reforms

While the specific policy recommendations in these areas will be explained in later chapters, there are some broad issues that dramatically affect the business environment that do not lend themselves to specific policy recommendations or legal and regulatory changes. Nevertheless, they deserve serious attention and consideration.

First, insecurity remains a chief concern throughout all sectors of the Afghan business community. Transporting goods and construction material has become extremely difficult and dangerous. Hundreds of business people have been kidnapped over the past several years. Some were held for ransom; others were simply killed. This insecurity has also created tremendous challenges for women-led businesses and women employees who wish to participate in the economy and contribute to their family's earnings. Fear, intimidation and other types of gender harassment have created a deleterious effect on women's involvement in commercial activity, trade and economic development.

While the business community cannot truly dictate to government and security officials how best to improve the security situation for businesses and commercial activity, those participating in the NBA regional meetings emphasized the great degree to which criminality and violence was negatively affecting the business environment in their regions. Given how important economic growth and job creation is to Afghanistan's development progress, business people are demanding that the government look more closely at what actions they can take to do a better job of protecting businesses and commerce and to take the steps necessary to improve the security environment in which businesses operate.

Second, Afghanistan has repeatedly been shown to be a nation affected by major corruption problems. While numerous surveys have been released over the past couple of years – including CIPE's 2010 Afghanistan Business Survey – documenting how big a problem this is, one particular survey result tells the full story: In a 2010 Transparency International study, Afghanistan was ranked as the second most corrupt nation in the world. That is an issue the government must immediately address and resolve. There are many causes and sources of corruption, as well as many participants in its conduct. While this NBA is not specifically designed to address corruption, we believe that many of the reforms included in our policy recommendations would have an impact on lessening corruption in this country.

For example, it is well-understood that over-bureaucratization often creates an environment that perpetuates corruption. The excessive amount of paperwork and the numerous administrative procedures and interactions with government officials required for starting or operating a business provides for many opportunities for corruption to occur. Likewise, the confusing array of taxes in Afghanistan offers additional incentives for businesses and government officials to manipulate the system by engaging in corruption.

While it is our sincere belief that adoption of the reforms outlined in the NBA will reduce corruption, it will certainly not eliminate it. There are many other areas in which government actors, including law enforcement officials, are involved in corruption. Such examples include police officers reportedly stopping trucks loaded with goods and requesting money, the nepotism and

favoritism that exists in filling government positions at all levels and corruption that exists in government contracting. Unless these and other corruption issues also are solved, even resolving the corruption related items identified in this NBA will not fully remedy this terrible problem. And, until the corruption problem is minimized, the business climate in Afghanistan will never reach its full potential.

Finally, many of Afghanistan's business people lack adequate knowledge and skills regarding fairly basic business practices such as business plans, bidding, contracts, technical and financial requirements, memorandums of understanding, and joint ventures. Even with the massive amount of development dollars flowing into Afghanistan, most Afghan businesses lack the capacity to compete favorably for this work. The Afghan government and the donor community should work with business associations in the country to fashion educational and training programs to build the capacity of Afghan business people to compete for and win not only contracts from the government and international donors but for foreign investment and partnerships as well.

III. RECOMMENDATIONS

1. TAX AND TARIFF REFORM

A. Tax Policy

A few years ago, the Ministry of Finance appointed a committee to point out what are known as “nuisance taxes and illegal taxes.” This committee was reportedly able to find roughly 30 such taxes and gave their recommendation for the abolishment of them. To our knowledge, no action was ever taken with respect to these items. For a starting point, we call on the Ministry of Finance to revisit the issues identified in this committee’s findings, and to act on the recommendations, eliminating these “taxes” that serve no useful purpose or that perpetuate corruption.

As for more fundamental questions of tax policy, businesses in Afghanistan are confronted with a convoluted taxation system consisting of a wide range of different taxes. According to many Afghan business people, determining actual tax liability and which taxes apply to you is extremely difficult. Furthermore, Afghanistan’s system of taxes is considered not only complex and confusing, but it is believed by many business people to be excessive and unpredictable. Reportedly, even paying taxes is a very complicated process; the tax forms in Afghanistan are described as intricate and difficult to prepare. In such an environment, opportunities for corruption are numerous.

Perhaps the most common taxation complaint registered at the NBA regional meetings was the process of submitting “balance statements” to tax authorities for the purposes of calculating tax liability for businesses. Several concerns were raised in this regard. People complained that the rules are complicated and that the appropriate forms are often not available. There is little understanding of the actual rules, and easily understandable manuals for guiding people in filling out the forms and navigating the process are not available. Likewise, the supply of capable and affordable accountants who could assist people in preparing their tax forms is quite limited.

There is also the matter that when people do take their statements to the “mustofiyat” (i.e. tax authorities); there are ample opportunities for corrupt practices to take place. Officials often take bribes to lower the tax liability owed or to avoid or “resolve” challenges by the tax officials to the information contained in the statements.

People also often feel that they have paid “income” taxes at many other junctures, including up-front business receipt taxes to customs officials at the border and numerous other legitimate and unofficial “taxes” throughout the year. They often believe that these taxes are not credited to their overall tax liability – as the tax laws require – and, therefore, they feel that their overall tax burden becomes excessive and unfair.

Some business people advocate for eliminating the balance statement process entirely. Many others believe that emphasis should be placed on simplifying the preparation of the statement and the procedures for filing it with the authorities. At the very least, efforts should also be made to root out opportunities for corruption that occur when businesses interact with the mustofiyat and to ensure

that businesses get appropriate credit for all the different taxes they pay in order to ensure they are not, in the end, unfairly overcharged.

At the present time, we in the business community feel that there is not enough credibility, transparency, and accountability in the bureaucracy of the tax officials to enable meaningful reforms of the balance statement system to take place. We urge the Ministry of Finance and other relevant tax officials to implement programs and administrative reforms to eliminate corrupt activities and actors and to streamline the procedures involved while also making the whole process more transparent.

Until such reforms can be implemented, it is recommended that in lieu of the requirement of profit and loss statements from businesses, a fixed tax be charged to all imported items while import duty is being collected. Such a system will avoid the numerous hardships that the business community is facing from the tax collector staff. Once there exists an atmosphere where corruption has been minimized, more transparency and credibility has been established in the system, and certain administrative simplification measures have been instituted, the business community would then be ready to accept a return to the taxation system relying on balance statements and to discuss a comprehensive overhaul of the taxation system in Afghanistan.

The business community also feels very strongly about re-establishing some form of “tax holiday” for new companies. While tax holidays, exempting new companies from tax liability during their first few years in operation, were part of the early investment and commercial reforms enacted by the post-Taliban Afghan government, those exemptions were later removed with the introduction of a new investment promotion tax regime. At the urging of the International Monetary Fund, the Government of Afghanistan replaced the tax holidays with Articles 42 and 47 of the Income Tax Law, allowing for capital loss carryover rules and accelerated depreciation for investments in businesses, respectively.

Many business people at the NBA regional meetings expressed concern and frustration that there were not enough new businesses being created in Afghanistan. Participants repeatedly emphasized that the Afghan Constitution requires the government to support and protect domestic industry. They implored the government to address this through both stronger tariff and trade policies designed to protect domestic production but also through more favorable tax treatment for new businesses. It is not enough simply to protect those Afghan businesses that are currently operating. Many new businesses are needed as well. The government should reinstitute a tax holiday for new businesses for a period from three to five years.

B. Tariff Policy

The issue of tariff policy sparks considerable debate within the business community in Afghanistan. The fundamental question to answer has been: Should the primary objective of the tariff policy be to protect domestic industries or to promote Afghanistan as a vibrant trading hub?

At this stage, the consensus within the business community is that tariff policy should be supportive of domestic industries and production, and it should be aligned with the guidance of the Ministry of Commerce and Industry and ACCI. The tariff of the imported commodity, which is also locally produced, should be generally higher, whereas the tariff for machinery, raw materials, medicines and other resources needed for production should be very low or even zero.

In fact, a Presidential Decree dated 26/07/1385 (more than 5 years ago) ordered the exemption of import duties on all kinds of threads and the decrease of imports duties of all raw and half raw materials needed by key Afghan industrial sectors. However the mechanism and procedures for getting this benefit to the covered businesses is complicated and burdensome. In some cases, even when eligible companies do apply for compensation, they never receive it.

For the long run, the government should make a clear decision regarding whether Afghanistan is to become industrially self-sufficient or to be a trading country. This is important since it is doubtful that a tariff policy can be found that can serve both purposes. So any tariff policy can only swing the future growth in a single direction. That is, lower tariffs will result in importation of cheap foreign products, most of which will be “re-exported” to the neighboring countries, often in a semi-illegal manner. By contrast, higher tariffs will encourage domestic industry, and domestic consumption of those products, and reduce activities related to trade.

At present, the bulk of the trade is in the hands of a few dozen families. By its nature and due to prevalent nepotism, benefits from trade remain in the hand of the immediate family circles of these tradesmen. By contrast, a thriving domestic industry can provide livelihood to hundreds and thousands of families.

As for tariff rates, the Ministry of Finance (MoF) already engages ACCI in periodic reviews regarding the classification of goods imported into the country and to the appropriate tariff charged on those commodities. We understand that such matters are under the authority of the MoF to change unilaterally, without parliamentary approval. Therefore, we recommend that the sectoral associations work in tandem with ACCI to identify specific goods and materials that deserve review, and that ACCI work with the MoF to find ways to reduce the tariffs on those items. We also recommend that this continue to be an ongoing initiative.

TAX AND TARIFF REFORM		
<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Ministry of Finance created a commission to find “nuisance taxes and illegal taxes” that served no valid or legitimate purpose. While the commission identified roughly 30 such taxes, to date there has been no action taken to eliminate them.	Ministry of Finance should immediately take action on eliminating the nuisance taxes and illegal taxes identified by their own commission.	Businesses in Afghanistan are already faced with a wide array of taxes that impose a significant financial and administrative burden on them. There is no rational or legitimate reason that additional nuisance taxes or illegal taxes be allowed to exist. It only makes it more difficult to start and maintain businesses.
Too many different taxes with complicated assessment, filing and collection procedures. Also, over-bureaucratization increases opportunities for corruption to occur.	Simplify the tax code, streamline the process for calculating, filing forms and paying taxes, and introduce more transparency and less bureaucracy in the system. Create manuals to assist business people in	Will reduce the administrative burden on businesses while also eliminating many of the opportunities for corruption to occur.

	understanding what taxes apply to them and how to file.	
Article 75 Tax Law and the system of balance statements create an excessive financial and administrative burden on business people contributing to a business climate that hinders business growth. It also creates many opportunities for corruption as the business people interact with tax officials.	The taxation law should be revised, particularly Article 75 of the Tax Law and the balance statements. However, until the necessary administrative reforms are in place creating a taxation regime that is more transparent, honest, reliable and accountable, the Afghan business community believes the use of balance statements should be suspended and replaced with a system of fixed taxes on the importation of goods.	The current system does not serve business well. It is arbitrary, burdensome and predatory. Businesses are unsure of what their real tax liability is or whether they are actually receiving credit for taxes paid earlier when the final tax assessments are figured. This environment perpetuates corruption in dealings between the tax officials and businesses. It is better to have a tax system that is fixed and predictable, even if it is too blunt and not equitable. At least businesses will know what to expect and will be subjected to fewer predatory practices.
The creation and growth of new businesses is minimal even as many existing businesses have already disappeared or are barely maintaining their existence. There needs to be better incentives to starting new businesses.	Government should reintroduce “tax holidays” for new firms and discuss with the business community the appropriate duration of such a holiday and any limitations placed on sectors, business size or other factors.	Business growth, increased commerce and job creation are keys to Afghanistan’s successful economic and political development. At this time, when it appears the rate of new business starts has slowed considerably, the government must take the initiative to create the incentives necessary for entrepreneurs to take on the many risks in starting a new business.
Tariff policy is generally not designed to promote and protect domestic production which is required under Afghanistan’s Constitution and is the stated policy of the current government. Tariffs on finished good that compete with domestically produced goods should be raised.	The tariff policy should be examined and revised to ensure that the proper balance is created between support for domestic industries while not creating shortages of goods for consumers and businesses that need such products.	Afghanistan needs to develop some manner of domestic industry rather than simply be a trading hub for the merchandise from other countries. The trading sector in Afghanistan is controlled by a small group of powerful families whereas the development of domestic industry will lead to the employment of many thousands of Afghans who are seeking jobs, livelihoods and prosperity.

<p>Raw materials and other basic commodities needed by Afghan firms are priced too high thanks in part to tariffs on many of those products. The old industry law, which provides exemption and support to these materials, should be restored.</p>	<p>Tariffs for raw materials, equipment needed for factories and other basic commodities necessary for Afghan industries and businesses should be reduced.</p>	<p>The lower cost of raw materials and other basic industrial supplies will boost production and provide additional incentives for new business growth.</p>
<p>Current Afghan tariffs do not always reflect the needs of the various business sectors affected by them.</p>	<p>The Ministry of Finance should continue to work with ACCI in evaluating the classification of particular products and the resulting tariff assigned to those classes of products to ensure the rates align with the economic policies of the country.</p>	<p>Afghanistan needs to chart a course for its economic growth and business development. Government policies, such as tariffs, should align with that strategy and support it. Having policies that undermine the real development strategy of the country is counterproductive and hurts the businesses and working people it should be supporting.</p>

2. LACK OF LAND AND HIGH RENT FOR BUSINESSES

While land and property rights reforms are sorely needed within Afghanistan generally, the business community is distinctly and very adversely affected by the legal ambiguity that exists with respect to owning and leasing land as well as with the capricious and predatory treatment by those who do control access to land. Despite repeated requests to provide business people with the necessary land to enable them to operate their businesses, the government has not yet met these needs.

One contentious issue involves the lack of land required for establishing and conducting business – even in those areas specifically set aside for commercial or industrial use. Many areas reserved for businesses have been illegally occupied and subsequently used for other purposes. For example, business people who attended the NBA meeting in Mazar-e-Sharif claimed that approximately 35 plots have been illegally taken in Dasht-i Shadyan, also located in Balkh Province, and as many as 380 houses built in areas reserved for business. Similar claims were made by businesses at the Kandahar meeting who said that land designated for industrial parks had been usurped for private use. The government needs to enforce the laws and take back these plots that have been usurped for private use. At the very least, the government should obtain fair compensation from those who have illegally taken over these plots and then find an equivalent amount of suitable alternative land to provide for businesses at reasonable rates and terms.

At the same time, many areas are simply lacking in any land set aside for industrial use and many existing industrial parks do not have sufficient infrastructure facilities either to make them attractive for businesses to locate or functional for businesses already there. (Note: The subject of infrastructure within industrial parks is covered in a later section.) In all of the regional meetings,

there were pleas for government to provide more land to industry and to do a better job of organizing industrial parks to meet certain sector specific needs and to think strategically about how to appropriately distribute land and services among key sectors. At the Jalalabad NBA meeting, a plea was even made to open an industrial park in neighboring Laghman province.

Women entrepreneurs specifically expressed frustration that, due to security issues or cultural considerations, they are often not able to operate in industrial parks also populated by businesses predominantly run or staffed by men. These women asked for the establishment of industrial parks dedicated solely to women’s businesses or at least for sections of existing parks to be set aside exclusively for their use.

Where businesses are able to obtain land from the government or its agents, these businesses often find that the rents are exorbitant, the leases are too short, and the resulting cost and uncertainty makes opening, operating and growing a business extremely difficult. The government must ensure that lands under its control are rented at reasonable rates and that the leases are of sufficient length to allow businesses some assurance of stability and predictability.

When existing leases expire, any increases should be kept fair and reasonable. The government should also enact a policy whereby, after leasing land to a business for a certain period of time, the government is obligated to offer the land to that business for permanent sale at a reasonable price. This would accomplish several positive results. It would increase private landholding and strengthen private property rights. It would provide to those businesses able to purchase their land with an asset and collateral, enabling them to leverage additional capital to grow their business. When the business in question outgrows that particular plot of land, it would enable the owner to sell his land to another aspiring business person, so that he or she can obtain the land necessary to start or grow their business.

Of course, if the lease contracts or land titles to these plots of lands are not respected, if government officials or their agents can rescind these contracts at will or extort money from proper lease or title holders who fear losing their land, then any such reforms will, in the end, be meaningless. Therefore, we urge the government to enact the necessary legal and administrative reforms necessary to ensure that real estate leases and land titles are enforceable, respected by authorities, and are protected from capricious and predatory actions.

LACK OF LAND AND HIGH RENT FOR BUSINESSES

<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Government lands intended for commercial lease and use have already been usurped for private use, whether as personal homes or other uses not intended.	Government should reclaim land designated for business use that has been usurped for other purposes. Or government should require those using it for other purposes to reimburse government for its value and then find other suitable land, of similar size, to provide for business use only.	This will encourage business predictability and development, as well as preventing illegality and corruption.

<p>Too much government ownership of land leads to high rents and real estate prices, which discourages investment, business start-ups or expansion and leads to increased uncertainty for business climate and opportunities for corruption.</p>	<p>Leases from government to businesses should be from at least five to ten years with reasonable rates. Also, the government-owned land on which individual businesses sit should be offered for sale at a very reasonable price to said businesses after a predetermined period of time being leased by an individual business.</p>	<p>Promotes predictability for businesses as well as strengthening property rights, private ownership of land, and the ability of businesses to access capital and financing for expansion.</p>
<p>Women-led businesses complain that there are no industrial parks designated solely for their use, thus complicating their ability to find suitable land to run their businesses.</p>	<p>The government should establish certain industrial parks for exclusive use by women's businesses or set aside portions of existing parks solely for businesses run and staffed by women.</p>	<p>Promotion of legitimate business activity should be of the highest priority for the government, and supporting the needs of Afghan women-led businesses should be no different.</p>
<p>Because of poor rule of law and ineffective judicial system, valid leases or land titles can be ignored, allowing legitimate business people to lose the land on which their business sits or allowing bad actors to extort money from them in order to continue to use the land.</p>	<p>Government must ensure that valid leases and land titles are respected and protected. Those who attempt to capriciously void valid leases for land a business uses or who usurp land rightfully belonging to a business or extort money from a business to allow them to continue to use the land must be punished.</p>	<p>Promotes predictability for businesses allowing them to plan for their future operations. Will incentivize businesses to invest and to expand their operations, creating more commerce and jobs.</p>

3. LACK OF CREDIT AND OTHER BANKING REFORMS

During the past nine years in Afghanistan, more than 17 banks, including 300 of their branches, have been established with more than US\$3.5 billion in deposits. Nevertheless, the country continues to face an array of problems concerning the availability of credit on reasonable terms. Many businesses are unable to obtain capital due to the punitive interest rates and collateral requirements imposed by the vast majority of banks. However, even if the rates were made more favorable, many businesspeople would still refuse to consider obtaining a loan because interest violates Islamic principles. In CIPE's 2010 Afghanistan Business Survey, 73 percent of the 738 businesses surveyed said that they had not sought, in the past year, to borrow funds to start or expand a business. Twenty-six percent of those same individuals stated they had not attempted to borrow funds because it is prohibited in Islam – the second most common reason cited.

These issues directly affect almost all sectors. Because credit is so difficult for Afghan entrepreneurs to obtain, a constant refrain from the business people participating in the regional NBA meetings was for the establishment of a development bank specifically for small businesses that is governed and managed based on Islamic banking policies so as to ensure that transactions be conducted

without interest. Many Afghan business sectors also demand that sector-specific investment funds be created to meet the needs of the key commercial sectors in the country. A third recommendation is to establish an investment fund for larger businesses with a guaranteed interest rate cap which is substantially lower than the current market rate of up to 24 percent.

It has been urged specifically that the former Agriculture Development Bank should be reactivated to provide interest-free or lower interest loans to farmers. The Agricultural Development Bank had been a largely successful institution in past years, until it was shuttered because international donors felt that the new commercial banks in Afghanistan could fill the need. However, in part for the reasons described above, that has not been the case. Now, the donors, under the lead of the U.S. Agency for International Development, appear prepared to re-create a new development bank specifically catering to agriculture.

Agriculture accounts for, by most estimates, 80 percent of the Afghan economy. The NBA calls on the Afghan Government to, at the very least, ensure that this objective is met in the near future. We would also like to see other investment funds set up for the sectors outside of agriculture, much like the “enterprise funds” being currently proposed by the United States for Egypt and Tunisia.

There are also problems concerning the bidding of projects in conjunction with banks acting as guarantors for company bids. Because the amount of the required guarantees is so high – often 25 percent of the project value – and because the length of time the guarantee is held is so long – often three months for all bidders – this places an enormous financial burden on any company seeking to obtain a contract and it makes it financially prohibitive to seek more than a couple of contracts at a time.

Winning companies often have to wait many months before receiving payment for invoices that the contract stipulates will be paid within 30 days, which places an enormous financial hardship on even those companies fortunate enough to win a contract. Companies often do not have enough funds to properly carry out a project after winning a bid. This is because a large portion of their funds are held by the guarantor bank. Consequently, many companies become insolvent or are at least unable to bid for other projects because their funds are tied up in the guarantees.

While many of these contracts are with international donors and not the Afghan government, the government should assist Afghan businesses in pushing donors to change these requirements, as they hurt the ability of these companies to compete for business and place undue hardship on them for even trying. For instance, bank guarantees for bidding on contracts should be held no longer than two weeks after the winning company is selected. Surely, there can be no reason why losing companies should continue to have their guarantee held by the banks. Their money should be released immediately if they were not selected. Similarly, the value of the guarantee itself should be reduced so not to burden these companies’ finances excessively. Local banks should be eligible to serve as guarantors, not only overseas or non-Afghan banks. How can one reasonably expect a small or medium sized Afghan company to be opening numerous bank accounts around the world just to enable it to compete for contracts and business?

Other issues concerning banks involve the bank’s transferring of money. In most cases, the banks, despite their assurance, fail to transfer money in a timely manner. Greater government oversight on banks has been recommended. Specifically, the government should determine whether to renew the

license of any bank that has not provided service in accordance with Afghanistan’s banking laws and regulations.

We acknowledge that some of the banking problems are the result of the current state of the court and legal system in Afghanistan, which makes it almost impossible for a lender to collect funds from a delinquent borrower or pursue restitution. Our judicial system lacks consensus about these issues. That is why the new mortgage law did not get near its intended goal. Not only is the price of collecting loans very high, but it is also impossible under the present legal system. While we did not include specific recommendations in this NBA to address this problem, we believe the business community must sit with the judiciary and discuss this problem face-to-face.

LACK OF CREDIT AND OTHER BANKING REFORMS		
<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Insufficient implementation of Banking laws. Afghanistan has been slow in implementing its banking laws, particularly Articles 42-52	Additional confidence building measures have to be institutionalized to increase confidence in banking systems and services, including enforcing Article 42-52 of the Banking Law	Improving the institutional mechanism for delivering credit, improving access to financial services for SMEs.
High interest rates and excessive collateral requirements exist in borrowing from financial institutions, with some interest rates estimated at over 20 percent.	The rate of interest should be made affordable, reduced to at least 5 percent. Align interest rates and other lending policies with needs and characteristics of the target group, including establishing investment support for small and medium-sized enterprises that complies with Islamic principles.	This will spur business start-up and expansion and economic activity, creating jobs and new income for many Afghan families.
New investment support institutions are needed to promote sound lending policies and to ensure that businesses in key sectors are able to obtain financing for business start-up and expansion. Such institutions can be sector specific, such as the Agricultural Development Bank, or they could be designed to support only small and medium-sized businesses that have a particularly difficult time obtaining financing.	Government should engage donors and business community on how best to resolve the pressing problem of the lack of credit available with reasonable interest rates and collateral requirements. Creative institutions must be established and instruments utilized to meet the unique needs and circumstances of Afghan business people.	Until Afghan business people have access to financing mechanisms that they trust and will use, there will continue to be very limited resources available to entrepreneurs to assist them to start and expand their businesses.

<p>Bank guarantees required for businesses to bid on contracts are too burdensome. The amount of the guarantee is too high and the length of time it is held is too long. Even companies who fail to win the bid at issue have their guarantee continue to be held for months after the announcement of a winning bid.</p>	<p>Government should work with the international donors and other large private contractors to reform bank guarantee requirements in order to lessen the financial burden on companies seeking to gain new business and to increase the number of businesses able to compete for contracts.</p>	<p>Such burdensome bank guarantee requirements serve to limit the ability of most businesses to bid for multiple contracts and freeze otherwise precious working capital that could be used elsewhere. It helps to ensure that only a small pool of companies continue to win most of these contracts.</p>
<p>Banks often fail to transfer money in a timely manner often leading to businesses experiencing financial difficulties as they try to make do with funds they were expecting or even not being able to meet deadlines for products or services thereby costing them penalties or loss of business.</p>	<p>Ministry of Finance should conduct more aggressive oversight of banks and their practices to ensure that they are treating their customers properly and living up to their commitments and legal responsibility. Banks with poor performance records in these regards should be sanctioned and lose their license to operate if they do not improve.</p>	<p>Businesses cannot function properly or efficiently without a reliable flow of money. Banks are in business to facilitate flows of money and increase the reliability and timeliness of financial transactions. They should not be placing greater burdens on businesses which already have enough impediments to tackle.</p>
<p>Part of the reason banks do not lend money at more favorable terms is that it is extremely difficult, if not nearly impossible, given the state of rule of law and the weak judicial system, for them to collect from a delinquent borrower or pursue restitution.</p>	<p>Government should work with judiciary, banks and business leaders to reform the legal system to enable lenders to take effective legal action against defaulting parties who refuse to pay back their loans.</p>	<p>This will help to remove one of the major impediments to banks loaning out money on more favorable terms.</p>

3. TRADE FACILITATION

Trade facilitation is a concept that considers the simplification, harmonization, standardization and modernization of trade laws, procedures and infrastructure. This includes utilizing documentation software and hardware that matches existing international best practices. Its principle aim is to reduce transaction costs and delays in international trade, especially those borne by businesses. While not quite a policy recommendation, we wish to emphasize how important it is for customs officials and others facilitating trade on behalf of Afghan companies to be well-trained, honest, capable, hard-working, and always professional in their duties. No matter how modernized the system is or how well-equipped the customs facilities are, the system will never function properly if the staff is not of the highest caliber, and there will also be instances of corruption.

In the area of trade facilitation, the most commonly mentioned deficiency during the regional NBA meetings was the lack of adequate and modern storage facilities available at border crossing points

(BCPs) to warehouse shipments of goods being imported into or exported from the country. Demand for such storages is even greater around the BCPs because of the likelihood that such products may sit idle at the border for days or weeks due to administrative or transportation delays. Whether it is agricultural products in need of cold storage or carpets, handicrafts, and other goods requiring protection from the elements, traders frequently complain about the lack of adequate facilities, both in terms of overall storage capacity and the poor state of many of the storage facilities that do exist. In addition, traders also complain that customs officials do not take proper care of goods passing through their stations, often damaging them during the inspection process.

In addition to storage facilities, there is a widespread call for building modern laboratories in border areas for the purpose of testing products for their safety. It is not uncommon for products entering Afghanistan to be counterfeit, of substandard quality, with expired labels, or damaged. It is certainly important that such goods be identified and set aside for appropriate handling. However, businesses claim that even safe and authentic goods can remain stranded at BCPs because test results have to be sent to Kabul. Such delays can have a devastating impact on the goods being transported or on the business reputation of the company moving the goods.

A large number of businesspeople also complain about having to pay custom duties more than one time on the goods they import. Businesses operating in provinces with BCPs – especially Kandahar and Herat – complain that after being assessed customs charges and duties at the original point of entry in Afghanistan, they are subsequently charged again when they arrive at other customs checkpoints inside the country. These business people are demanding the elimination of duplicative customs charges being assessed as goods move to new jurisdictions and that any receipt obtained at the first BCP should be respected and accepted as valid and paid at all customs centers across the country. The failure to remedy this issue will simply lead to further financial injury to businesses and continued bouts of corruption.

Another major complaint near BCPs has been the abuse of power by the private transport officers of the Ministry of Transportation and Civil Aviation who create a monopolistic environment by giving clearances only to certain companies to transport goods to or from BCPs to other locations. Granting preferential treatment to certain companies to serve as “authorized” transport carriers not only hinders timely and cost-efficient trade, it also creates enormous opportunities for corruption to occur, forcing businesses to pay bribes in order to get their goods on the limited number of “authorized” carriers available and enabling transportation officials to use their positions to obtain or extort bribes. We call upon the Ministries of Finance and Transport to investigate such illegal arrangements and to work together to ensure that an open and competitive market exists for transport services for goods coming across the BCPs.

TRADE FACILITATION		
<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Many Border Crossing Points (BCPs), such as Aqina at the Turkmenistan border, lack modern infrastructure along with sufficient ICT	All BCPs should be equipped with necessary infrastructure, modern equipment and systems, and well-trained, trustworthy staff. Staff must be instructed to care for all	This will expedite the goods clearance process and expand trade and commerce. It will also help to ensure that proper care is taken of the goods that are

equipment, harmonious systems and talented staffing	goods properly, and they should be evaluated on this.	transiting the border.
Afghanistan lacks sufficient modern storage facilities, especially for agricultural products and other delicate goods such as carpets and handicrafts.	The government should commit itself to construction of adequate number of modern storage facilities near major BCPs where vital transit and trade occurs. It should undertake to build those facilities expeditiously.	This will support all businesses, especially farmers, carpet merchants, and others with delicate products.
Afghanistan lacks technical laboratories at BCPs. This means any labs tests that are conducted must be sent to Kabul for analysis. This can lead to lengthy delays for products sitting at the border causing them to deteriorate or upset the traders' timelines. The possibility of delay also invites opportunities for corruption.	Laboratories should be built at major BCPs and must be both adequately equipped and staffed with competent officers. The related laws, procedures and other regulations of the ANSA (Afghan National Standards Agency) should also be enforced with the required budgets and necessary equipments.	Such labs are needed at to test food and oil products, pharmaceutical items, construction materials, etc. for their safety. Too many substandard goods are entering the country at present. This will also eliminate lengthy delays while tests on good waiting at the border are sent back to Kabul for analysis.
Businesses complain that after being assessed customs charges and duties at the original point of entry in Afghanistan, they are subsequently charged again when they arrive at customs checkpoints in other provinces	The Ministry of Finance and Customs Department must ensure that anyone transporting goods into Afghanistan is given proper documentation confirming full payment of due fees at the point of entry and that this receipt is accepted at all subsequent customs checkpoints and further charges are not assessed.	Afghanistan charges many fees, taxes and duties at the border on goods coming into the country. It is intolerable that transporters would be assessed improper duplicative charges as the goods pass through the country. Such activities harm businesses and commerce and create many opportunities for corruption.
Government officials collude with certain transport companies and then only authorize those companies to transport goods within their jurisdiction or to specific BCPs thus creating major burden for companies seeking to ship their goods in or out of the country.	Ministry of Transportation must eliminate this practice by its officials and punish any officials who continue to operate this way. They should also take away the trucking licenses of companies that solicit government officials for favorable and exclusive treatment.	This collusion between government officials and transport officials is unacceptable. They are engaging in monopolistic practices that serve to burden businesses with delays, higher cost and foster corruption as businesses seek to get around these rules or get their goods on the limited number of "authorized" trucks available.

5. BURDENSOME LAWS, REGULATIONS, AND ADMINISTRATION

At the regional NBA meetings, many business people complained about municipalities setting prices for goods and services thereby ignoring the Cabinet Decree that was issued declaring such practices illegal and against the constitution. These business people are calling on the central government to demand clearly that municipalities adhere to that decree and stop setting prices on goods and services within their jurisdictions.

It has been argued that the municipal officials have taken this approach to combat price-fixing that has resulted from certain businesses engaging in monopoly or hoarding of particular products that are needed by the people. Many businesses are also harmed by price hikes for goods that result from monopolies or hoarding, usually many more so than stand to benefit. The proper response to the harm and disruption caused by hoarding and other monopolistic practices is to stop those engaging in hoarding or imposing monopolies – not to have government officials step in and decide what the fair price for products will be.

The Afghan constitution says that a market economy should prevail in the country. If monopolies and hoarding are creating inequities within the market, harming consumers and businesses alike, the government should punish the perpetrators and restore fair and open competition in the marketplace. However, the central government should not tolerate municipalities ignoring its decree and engaging in price-setting, no matter the rationale. It will only lead to greater distortions and disruptions in the market as well as people losing respect for government's authority.

In Afghanistan, business registration has generally been a very centralized process and the validity of business licenses is quite short in duration – only for one year. We applaud the decision of the Afghan Central Business Registry (ACBR) of the Ministry of Commerce and Industry to decentralize this burdensome process by establishing its office in the five major cities of Herat, Jalalabad, Kandahar, Kunduz, and Mazar-e-Sharif. However, the license validity should be extended perhaps for five years to bring predictability and business continuity (principle of going concern) while preventing any shortfall to the income of the Afghan Investment Support Agency (AISA) or to tax payments collected by the Ministry of Finance.

Requiring businesses to renew their AISA licenses annually has also been criticized. The rationale reportedly stems from the Ministry of Finance requiring businesses to annually submit their balance statements. However, this reason may be inconsequential since those who do not submit their balance statements on time are already fined 500 Afs per day. Therefore, a longer duration of the AISA license is likewise being recommended in this report.

While we commend AISA's having opened regional offices in six major cities around the country, AISA should work harder to provide more real investment support rather than being essentially a business registry organ. This includes "pre-investment" support to those seeking to invest, whether market analysis, investment guidance, or the like. It should also include more "post-investment" support to existing businesses including marketing opportunities, match-making, and assistance with visas.

During the roundtable discussions, the manner in which construction contracts have been awarded has been criticized by the Afghan business community who urged that the bidding process be fair

and impartial. It is often the case that such contracts, awarded by foreign entities, are won by an exclusive group of companies. Construction contracts for the construction of hospitals' and schools' buildings are given to some foreign companies and this has received negative response from Afghan businesspersons.

If the price of a government purchase is to be over US\$500,000, it is handled through a tender by the ARDS (Afghan Reconstruction and Development Services). ARDS follows the purchasing procedure of the World Bank. After a lot of hardship to both sides and costing much money and time to the bidders, the ARDS decides on a winner and announces the same to the government organization involved. The related organization can unilaterally decide to buy from another supplier who may not be the winner of the tender or even be a non-participant in the tender.

BURDENSOME LAWS, REGULATIONS, AND ADMINISTRATION		
<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Municipalities have engaged in setting prices for certain goods, ignoring the Afghanistan Constitution and the subsequent Cabinet decree declaring that the market should set prices. Some claim this is in response to monopolies and hoarding which artificially drive up prices for certain goods.	Cabinet should reiterate the message of this decree and demand municipalities stop setting prices for goods. Where monopolies or exist or hoarding is being practiced, and it is affecting prices or availability of goods, the proper authorities should be notified and the perpetrators punished.	People will continue to lose faith in and respect for the Government of Afghanistan if it does not uphold the constitution or if it allows provincial or municipal levels of government to ignore laws or decree passed by the central level. Businesses also prefer the dynamism of the market versus governments stepping in to set prices.
The validity of business licenses issues from both Afghan Central Business Registry and Afghanistan Investment Support Agency is too short – generally one year – which adds an unnecessary administrative burden to businesses and affects business stability and predictability.	Extend the validity of business licenses from the current one year to either three or five years.	It is an unnecessary hardship and cost on businesses to have to renew licenses on an annual basis. Extending the validity of licenses will also create more predictability and stability for businesses and eliminate opportunities for corruption.
AISA demands licensing fees while offering only very limited supporting services. Meanwhile, Afghan businesses often lack the business skills or capacity to compete for the business that currently exists in the country or to compete with some of the other players in the marketplace.	AISA should, as originally mandated, expand its supporting services beyond mere license issuance. It could focus on business support services, helping Afghan businesses build their skills and capacity to compete for contracts and investment.	Afghan businesses would obtain more work orders, contracts and investment if they had business skills and acumen that fit the business environment that currently surrounds them, such as international donor money, government contracting and joint ventures.

<p>There is a lack of transparency, competition and participation in the bidding process in which huge contracts are given to companies especially construction companies who often sub-contract to other entities.</p>	<p>While the bidding process should be transparent, the ARDS (Afghan Reconstruction and Development Services) of the Ministry of Economy and the Large Procurement Unit of the Ministry of Finance should be given special attention. The practice of single source should be avoided.</p>	<p>This will foster transparency as well as ensuring equal treatment in business dealings.</p>
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6. LACK OF INFRASTRUCTURE

There has reportedly been more than US\$2 billion in investment in the energy sector in Afghanistan the past 10 years for generating, importing, transmitting and distributing electricity. Nevertheless, there continues to be consistent complaints by the business community that too little quantity and reliability exists in the system for businesses to operate properly and efficiently. While a lack of reliable electricity is a huge problem for industrial parks, many parks are also lacking in other basic infrastructure needs.

For instance, two industrial parks in Balkh province – one located in Dasht Shadyan, south of Mazar-e-Sharif; the other is located in Dasht Gomar, east of Mazar-e-Sharif – lack infrastructure such as asphalted roads, running water, power, canalization, and health facilities. According to the business people attending the NBA meeting held in Mazar-e-Sharif, government authorities have not yet allocated any funds to the industrial parks directorate for the provision of such facilities and services at these parks.

There were also reports at the Kandahar NBA meeting that no electricity, potable water, culverts, bridges, and canalization were available in the Karandam industrial park. In addition, while a cold storage facility exists in Kandahar, it is not functional due to lack of electricity. There has been a lack of electricity, sewage treatment, and security in the industrial park in Herat. Business people at the NBA meeting there called on authorities to build a 50 megawatt substation dedicated for industrial park use there. At the Jalalabad NBA meeting, there were calls for reliable electricity supply to the Shaikh Misry industrial park as well as to another industrial park used primarily by carpet weavers.

Clearly the government must place a higher priority on making sure that the industrial parks that do exist are capable to adequately support the businesses that are operating there as well as to attract new businesses. In addition, many people also complain about the lack of planning in organizing industrial parks in terms of the sectors or industries to be included in a particular park and making sure the appropriate facilities exist to support those businesses. This is no doubt in part a result of the lack of support given to the industrial park directorate in terms of money, authority and technical competency. The government should immediately engage the business community in these provinces, as well as the international donors, and develop a detailed plan for making the necessary improvements to these parks so that more businesses will locate there and those industrial operations will be more productive.

Of course, even outside of industrial parks, deficiencies in infrastructure, particularly those relative to water and electricity have posed major obstacles for Afghan businesses for years. The country has suffered significant water shortages over the past few years and the agricultural industry in particular has been severely affected. But this affects many other businesses as well. And even when water levels are deemed as sufficient, Afghanistan has difficulty controlling water flow.

In areas where electricity is generally available, its allotment and pricing is often criticized as inequitable. For example, Balkh industrialists claim they pay nine Afghanis per kilowatt electricity while Kabul industrialists pay four Afghanis per kilowatt. There appears to be no rational basis for this discrepancy. Similar complaints of inequitable allotment exist in Jalalabad. Therefore, unless authorities distribute and invoice for power and electricity uniformly, allegations of unfair competition among industries and regions will continue and the price disparity will thwart business development in areas where these costs are significantly higher.

LACK OF INFRASTRUCTURE		
<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Many existing industrial parks lack the basic level of infrastructure and service to enable businesses to operate efficiently and productively. Such elements include electricity, clean water, roads, canalization and security.	The Ministry of Commerce and Industries and AISA, with private sector input, should fulfill the ANDS commitment to develop and implement a strategy for ensuring that industrial parks have the infrastructure and services necessary in order for businesses located there to operate successfully.	Provides businesses with a functional and predictable environment in which to operate. Increases productivity and efficiency, enabling Afghan companies to be more competitive in the marketplace and to stay in business longer.
Existing industrial park directorates usually lack financial resources, authority and expertise to effectuate proper changes to the poor state of many industrial parks in Afghanistan.	Provide adequate financial support, operational authority and technical expertise to enable industrial park directorates to provide the level of infrastructure necessary to assist existing businesses in the parks be productive and successful and to attract new businesses to the parks.	This will encourage overall business development in the country and attract new businesses and investment to the parks.
Outside of industrial parks, infrastructure is also often lacking for businesses, especially reliable electricity and clean water.	Provincial and municipal development strategies should engage the private sector and review the state of infrastructure in their regions and how it impacts commerce and economic development. Projects should be undertaken to improve those areas that are severely lacking.	This will improve the productivity and efficiency of businesses that receive more reliable services and result in greater business activity, growth and jobs.

Electricity rates deviate significantly from location to location. Price per kilowatt in Balkh and Nangarhar provinces more than double the rate in Kabul significantly raising the cost of production in those areas.	Relevant government officials should examine such cost disparities to determine whether they truly exist and what the reasons for the disparities are. The government should take action if these disparities are the result of anti-competitive interventions in the market.	All businesses are entitled to fair and equitable distribution and pricing of electricity and other government goods and services. This ensures that businesses succeed or fail for business reasons not factors outside the entrepreneur's control.
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7. SPECIFIC SECTOR REFORMS

A. Agriculture

With 80% of the country's workforce involved in agriculture, the sector is Afghanistan's largest by far. Significantly, 30 per cent of the agricultural workforce is comprised of Afghan women. Nevertheless, more logistical support to the country's agriculture sector is required. This can be done by digging more tub wells, constructing dams and seasonal water reservoirs. Additionally, reform of Afghanistan's regulations concerning water flow as well as water rights is necessary. Many farmers lack chemicals and medicines that prevent or combat crop diseases. It has been suggested that such items along with improved varieties of seed be distributed to farmers. Many farmers also require modern machinery and equipment to operate their businesses. The business community has long complained about the poor quality of agricultural materials being imported into the country. It has also suggested that agricultural experts examine plants regularly to ensure high quality crops.

Finding foreign markets for agricultural products is unquestionably vital to ensure long-term growth. Indeed, Afghanistan must increase the level of agriculture exports, particularly in international markets, while decrease taxes on agricultural products. With that said however, the country must reform and revise its domestic policies on promoting greater coordination between national agencies and farmers. In Herat for example, there is a lack of cooperation between the city's directories in providing electricity along with land for hatcheries and fish farms. There is also a lack of Afghan dairy and protein product use and consumption among government and military personnel. This reinforces the notion among farmers and businesspersons that the government is not doing all that it can to promote preference for Afghan products.

AGRICULTURE		
<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Afghanistan has insufficient agricultural and livestock inputs. It needs improved seeds, natural and chemical fertilizer, tractors and other machinery, agricultural and livestock medicines, and insecticides	Afghan Chemical Fertilizer and Afghan Agricultural Bank should be revitalized and restructured, accordingly. An agricultural and livestock pharmaceuticals firm should be licensed to provide input to farmers and livestock owners	This will not only promote the production of agricultural and livestock's products and by products, but it

to expand agricultural and livestock production.		will increase employment and exports.
Afghanistan lacks affordable equipments and machineries as well as technical knowledge to process raw agricultural products such as wool, cashmere, cotton, animal skins, fruits and other products in the country to increase the capacity to export.	A state light industry policy for processing agricultural and livestock products and by-products has to be designed, implemented and monitored	This will attract foreign direct investment, save foreign currency, increase employment and move toward industrialization.
Low irrigation infrastructure, such as dams, canals, wells, water diversion mechanisms as well as poor overall water management	A comprehensive water management strategy with specific irrigation projects prioritized and funded.	This will increase production and lure more investment in agriculture

B. Construction

The construction industry is the fastest growing industry in Afghanistan since 2001 when the Taliban was ousted from power. According to the Afghan Builders Association, there are approximately 1,000 registered construction companies across the country but most of them are located in Kabul. These companies provide services not only to government agencies but also to NGOs and UN international organizations. Nevertheless, the industry lacks unified standards and regulations for construction companies, their work and the materials being used. It has been suggested that such regulations be drafted with the close cooperation of the construction industry.

CONSTRUCTION		
<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Lack of appropriate standards and codes of conduct for construction works.	A standard for construction materials should be prepared and given to construction companies as soon as possible	Will standardize construction projects, including residential & commercial buildings.
Unhealthy and negative competitions in biddings.	Winning in bidding process should not be based only on the lowest price, but it should be based also on the standards, effectiveness and quality of work.	This will prevent low quality construction causing various hazards.

Change in the prices of construction materials during the course of the contract places an unfair financial burden on construction companies implementing the contract.	In case the rates of construction materials go up more than five per cent, the increases should be added to the allowable costs by the party paying the contract.	This will prevent project stoppages and ensure that companies who win projects are able to complete them as required by the contract.
Taking two per cent income tax from the construction companies before the project implementation starts or the income is determined	Taxes on construction materials are paid by the traders and the construction companies use the same materials, therefore, paying two per cent tax is inappropriate. This should not be taken.	This will prevent business interruptions and ensure that companies winning construction contracts do not experience financial difficulties in fulfilling their responsibilities.

C. Handicraft/Carpet Industry

The handicraft industry, which includes carpet weaving and trading, jewelry, wooden carvings, needlework, and leather goods, has been the traditional industry in Afghanistan for more than two thousand years. The Government has to initiate a project for the branding of Afghan products, especially handicraft such as carpets, clothing and jewelry so as to clearly identify such products as being made in Afghanistan.

The carpet industry is one of the most important sectors in this industry, employing more than 2 million people and earning more than a quarter of exports. Carpets which are globally recognized as visible and viable hand-made products have more than ten famous brands with different designs, production materials and dyes. The prolonged war, migration, competition, world economic crises, unmatched cutting and washing facilities in neighboring countries have hampered the development of this industry. The Afghan carpet's major competitors are Iran and Pakistan and its major markets are Europe and the US.

The carpet industry's chief concerns are that it lacks an adequate marketing strategy and that the government has not taken certain proactive steps to foster a better business environment. For example, Cabinet decision 17 (dated 20/4/1384) which involved the distribution of land to carpet industrials has not been implemented. Moreover, many local businesspersons do not have sufficient contacts with those seeking Afghan carpets abroad. Greater cooperation between the government and local carpet producers is required. Such cooperation calls for the government to provide training in carpet design and to create provincial centers for wool sorting and to promote silk worm farms.

It has been urged that international markets be identified, and central markets be established at regional and provincial levels. Greater coordination would also resolve the visa dilemma for Afghan carpet makers who have complained over their inability to market their carpets abroad. Also, greater government-business coordination would prevent logistical complaints such as a depletion of carpeting items including caustic soda, a substance used in washing carpets. In an effort to improve carpet and rug quality, it has been suggested that raw materials be evaluated by the producers' and exporters' unions. This is because of a rise of complaints over low-quality carpet-making materials imported to the country. The following recommendation may improve the carpet industry:

CARPET INDUSTRY		
<u>Existing situation</u>	<u>Proposed Change</u>	<u>Rationale</u>
Lack of implementation of cabinet decision No. 17, dated 20, 4, 1384, in regard with the distribution of lands to carpet industry resulting a lack of central locations for various phases of production, including cutting and washing which are mostly done in Pakistan	Integrating all phases of carpet production for globally demanded export quality.	It will reduce costs, increase value and function as one stop production
Shortage of capital fund for the expansion of carpet industry	Investment Fund and Specialized Micro-financing facilities	Carpet producers will not look for Pakistani investors
Specialized carpet designers and market specialist are needed to enhance the capacities of carpet weavers	The Government could grant technical assistance from India or other donors	It will provide alternative market appeal and designing trends
Carpet cutting and washing in Pakistan transfer the value to neighboring country	Government could attract big investors to invest in carpet cutting and washing to add value and increase employment domestically	It will add value and increase employment in the country
Lack of formal carpet weaving institute	A carpet weaving institute for weaving, designing and dying has to be established	This would increase the capacity and transfer of traditional carpet weaving techniques to future generation

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