



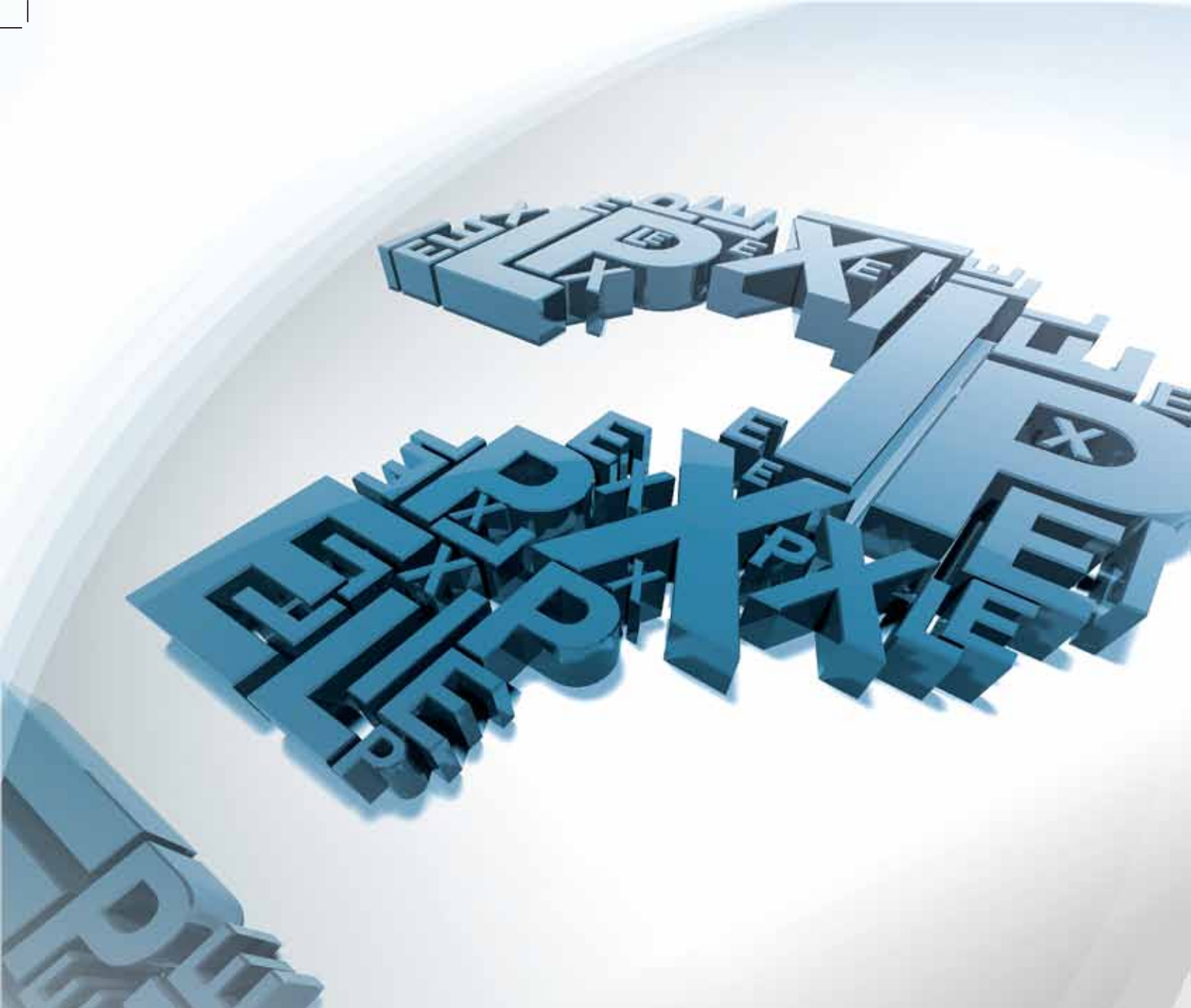
Afghanistan Chamber Of Commerce & Industries
اتاق تجارت و صنایع افغانستان
د افغانستان د سوداګرۍ او صنایعو اتاق

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MARKET
ECONOMY

LOOKING **BEYOND** 2014



**How the transition process
will affect the economic
landscape in Afghanistan**



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ACCI Inside

CEO MESSAGE

The beginning of transition in July 2011 marked the start of a new phase, which sees Afghanistan taking on greater responsibility for its own security and future development. In regard to the declining aid and military spending the process of transition is not without challenges. As the World Bank stated in its report “Transition in Afghanistan: Looking Beyond 2014” the withdrawal of foreign forces will have a profound impact on Afghanistan’s economic landscape. The Bank is expecting that GDP growth may fall from 9 percent a year over the past decade to 5 percent during 2011-2018. This dropdown would not only affect the employment opportunities for the population but also further limit the government’s sources of revenue.

The report released by the World Bank initiated a broad discourse on Afghanistan’s future after 2014. The Afghan Chamber of Commerce and Industries (ACCI) contributed to the discussion by organizing a roundtable where representatives of the government, private sector organizations and the international community discussed different scenarios of the transition process. The presentations from experts like Richard Hogg, Bill Byrd and Dawood Yaar were a substantive input for policymakers dealing with this topic. Their contributions are summarized in this magazine.

For me personally, the roundtable showed that Afghanistan needs a broad alliance between the government, private sector and international community to cushion the impact of the transition process. The imperative is clear: Afghanistan has to become a favorable location for investment. Economic growth is the only possibility to replace foreign aid in the long-term. Therefore, the government and private sector has to accelerate their joint efforts to improve the business climate. This is the key for Afghanistan’s future. The donor community already gave a positive signal during the International Bonn Conference and confirmed that it will only gradually decrease its support until 2024.

I hope that the relevant stakeholders will contribute positively to the discussion, which has been initiated by ACCI. In the next two years important decisions has to be made to prepare Afghanistan for the end of the transition process. Thank you and my best wishes,



Mohammad Qurban Haqjo
ACCI Chief Executive Officer

Looking Beyond 2014

How the transition process will affect the economic landscape in Afghanistan

The anticipated declines in international military and development assistance to Afghanistan until 2014 are going to have a major impact on Afghanistan's government budget and economy. These in turn will have significant implications for Afghanistan's future stability and development. Until now, however, this economic transition has received relatively little policy attention in comparison to the attention given to the

security transition in Afghanistan. In order to discuss the possible implications of the transition process on the private sector, the ACCI organized a roundtable in Kabul on the 11 January 2012, which was attended by more than 215 participants. Among them were ACCI's board members, government officials, representatives of the international community as well as national and international media representatives.

Experts from the World Bank, the Ministry of Foreign Affairs and Kabul University provided with their presentations a substantive input to the discussion.

In his welcome speech Mr. Hassen Fahim, Chairman of the Afghanistan Chamber of Commerce and Industries (ACCI), highlighted that the transition process will be the challenge for Afghanistan until 2014. He asked the national and international partners to cushion the impact on the private sector through joint coordination. In this regard Mr. Mohammad Qurban Haqjo, CEO of ACCI, asked the donor agencies to reduce aid predictably and to support Afghan organizations in their ambitions for ownership. The experts underlined these demands. In their presentations they analyzed the following challenges of the transition process for the public and private sector in Afghanistan:

- Implications on the governmental budget: Until 2014 the Afghan government will gradually take over the responsibility for security provision and service delivery from the international community in the country. This objective is threatened by the increasing expenses, which cannot be covered by the state budget in the short and long term. Afghanistan is highly aid dependent - 92% of total public spending is currently financed by aid (15.7 billion US-Dollar). Accordingly, the decline in development assistance will cause a financial gap in the budget, which is projected to peak in 2014/2015 at around 40 percent of the Gross Domestic Product.

Taking this into account, policymakers have to decide how to fulfill governmental responsibilities after 2014 by facing serious budget restrictions.

- Impact on the private sector: In the last decade the Afghan economy grew annually by 10 percent in average. The economic boom was mainly caused by a massive inflow of capital from outside the country. The decline in military and development assistance will sharply decrease this inflow and weaken the demand for products and services in the country. Economists forecast that through this economic growth will decrease after 2014 affecting the job and income opportunities for the population. Due to the budget restrictions, the government will not be able to strengthen the demand for private investment through market interventions.

During the roundtable experts from different organizations shared the opinion that the transition process will immensely affect the state budget and economic growth in Afghanistan. However, their projections differ in the approach and conclusions: Richard Hogg and Bill Byrd (both from World Bank) explained different scenarios for the country's future on the basis of numerical data. In doing so, they projected the financial gap in the state budget and estimated the economic growth until 2024. In contrast, Dr. Dawood Yaar from the Ministry of Foreign Affairs focused on the implications of the transition process for the private sector. He



examined the current conditions of doing business and elaborated seven hypotheses on how the economy will be affected by the declines in military and development assistance. Prof. Hamidullah Farooqi and Prof. Saifuddin Saihoon (both from Kabul University) chose another focus on the topic by presenting strategies on how to strengthen Afghanistan as a business and investment location. Both economists shared the idea that foreign aid can only be replaced by

private investment to increase the revenue basis of the government and ensure economic growth. In the end, Dr. Anwarul-haq Ahadi, the Minister of Commerce and Industries, gave a practical insight how budget spending can set incentives for private investment after 2014. He explained that Afghanistan would rely on development assistance until 2024, which has to be more channeled through the government's budget to support institutional building.



The Afghan Government has to cut expenses and increase income without harming economic growth

Richard Hogg* and Bill Byrd**, World Bank

Thus far, the World Bank has been the only organization to have performed significant analysis of the impact of the military drawdown and framed its assumptions with numerical data. In their presentation Richard Hogg and Bill Byrd shared both the fiscal and economic impact of the transition. They expect that operating expenditures in 2021 will double the size of revenues, leaving a financing gap of approximately 25 percent of the GDP. The financial gap is unlikely to be sustained without dramatic cuts in the budget causing a negative impact on security and service delivery. In the view of Hogg and Byrd, the budget constraints require actions from the government and the donor community. Government action must set effective priorities in a tightening resource-constrained environment by spending that follows priorities both across and within sectors.

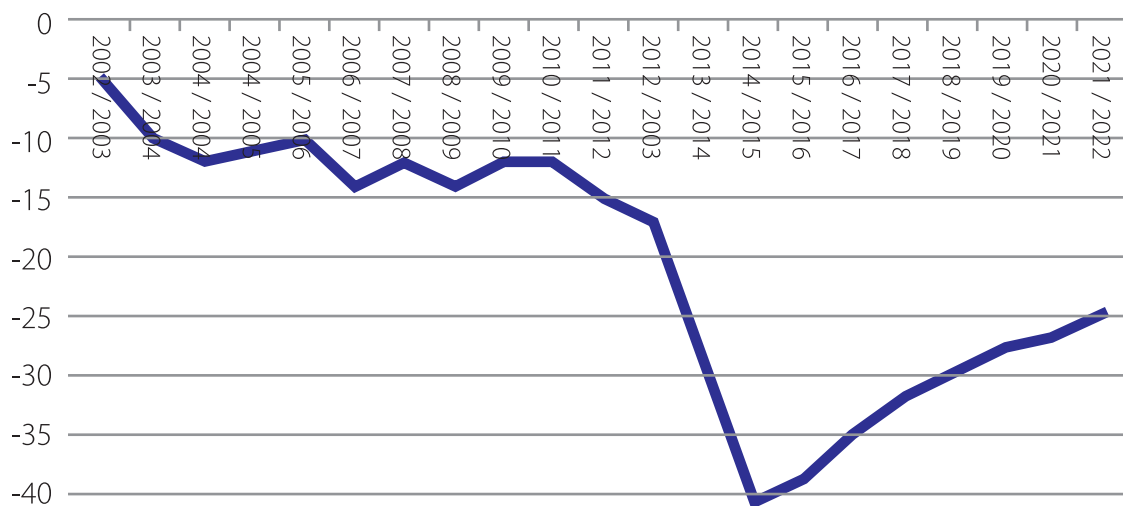
Hogg and Byrd therefore give the Afghan government three suggestions in their report: Firstly, investment decisions must take into account operations and maintenance liabilities and affordability. Secondly, the spending on infrastructure must demonstrate clear potential for private-sector-led growth. Finally, the government must supplant economic growth driven largely by aid-based public investment and consumption, with growth created by fostering a better environment for the private sector to be creative, innovative, and entrepreneurial. These activities have to be supported by the donor community in several ways. The most important issue is to reduce aid gradually to avoid unpredictable cuts in public and private spending and channel more fund through the Afghan budget to support institution building. Furthermore, Hogg and Byrd see budget spending on the security sector as a core task of the government ensuring stability in the country. Hogg and Byrd clearly see a connection

between declining aid, budget constraints and economy growth after 2014. They expect that the high growth rates of the past ten years will decline depending on factors like security, governance and changes in fuel and food prices. In the more favorable scenarios, the economy is projected to grow between 4.5 and 6.2 percent annually between 2011 and 2018 and converge to around three to four percent afterwards. Hogg and Byrd state that the realization of this positive scenario requires further improvements in investment climate and infrastructure enabling the Afghan private sector to grow. In their view, the mining sector could play an important role to keep the growth rates high and raise the income of the government budget.

** Richard Hogg is working for the World Bank in the field of private sector development. In the past ten years he was active for the Department for International Development (DFID) of the United Kingdom in Afghanistan.*

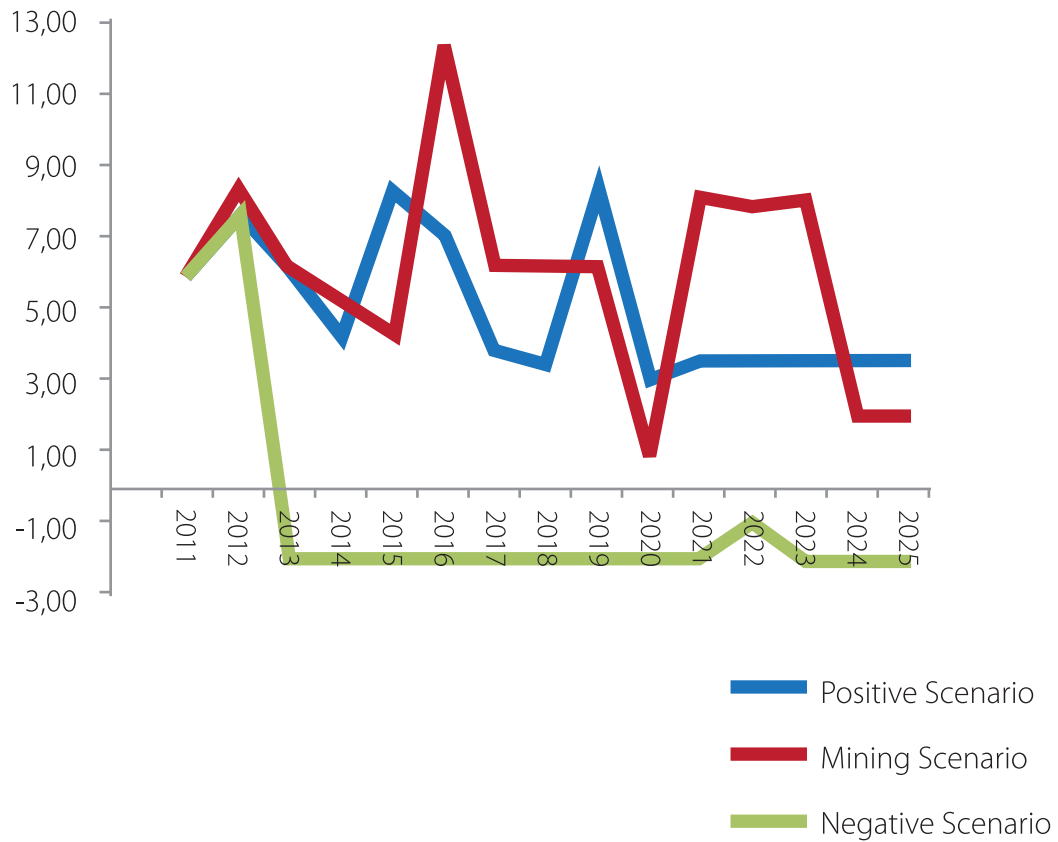
*** William Byrd is currently serving in the World Bank's Headquarters in Washington, DC as Economic Adviser in the Fragile and Conflict Affected Countries Group. Previously he was an Advisor in the Poverty Reduction and Economic Management Unit of the South Asia Region of the Bank. William Byrd has a PhD in Economics from Harvard University and a MA in East Asian Regional Studies from the same institution.*

Graph I: Projection on the Financial Gap in the State Budget (2002-2022)



Source: World Bank

Graph II: GDP Growth Projection 2011-2025 (in percentage)



Main Assumptions for the growth projections:

Positive Scenario: Gradual decline in aid (10% of GDP by 2025); improving investment climate; opium economy assumed to remain constant (no growth); slower/negative growth in construction, transportation, and retail.

Mining Scenario: Positive Scenario including the exploitation of eleven additional mines, all developed over simplified timeframe.

Negative Scenario: Rapid decline in aid, no mining, zero productivity growth, and strong depreciation of capital.

Source: World Bank



MINISTRY OF FOREIGN AFFAIRS

ISLAMIC REPUBLIC OF AFGHANISTAN

“The Transition Process Will Have a Profound Impact on Afghanistan’s Economic Landscape”

In his presentation Dr. Dawood Yaar examined the current conditions of doing business in Afghanistan and elaborated seven hypotheses on how the economy will be affected by the declines in military and development assistance. He labeled the current stage of the private sector as a “casino economy”, in which the uncertain environment sets the wrong incentives for investment. According to this image, Afghan companies currently prefer to get a high return in the short run through speculative activities instead of investing in the future. As a result, the country’s economy is fragile, consumption oriented and aid driven. Dr. Yaar expressed the concern that the “bubble” will burst with the withdrawal of foreign forces. The support of the international community in the past years caused a massive inflow of capital to Afghanistan, which will be sharply decreased after 2014. With regard to the impact of the transition process, Dr. Yaar developed the following projections: Firstly, the overall income level will fall for different segments of the population. Secondly, the rate of growth will slow

down and unemployment will rise. Thirdly, there will be a rise in illegal economic activity. Fourthly, a proportion of skilled labor will leave the country and the remaining skilled labor will see their productivity decrease. Fifthly, the development budget will be difficult to fund, demand for imports reduced, and the Afghani will depreciate. Sixthly, the urban real estate bubble will burst and depress prices impacting the financial sector that is tied to real estate. Finally, the capital flight in the medium and long-term will result in lower foreign exchange rates and a depreciated Afghani, and investments in services, trade, logistics, transportation, construction, and public service sectors will suffer. The three solutions put forward by Dr. Yaar to counter the impact of reduced aid and spending is to establish many SME businesses, for the security sector to be funded by donors for at least 5 more years, and for gradual reduction in aid by the international community.

* Dr. Dawood Yar is currently working as the Director General of Economic Affairs of the Ministry of Foreign Affairs. He has got a PhD in Economics from the University of Cologne in Germany after studying at the Kabul University and Bowling Green State University in the United States. He has taught in different universities in Afghanistan and the USA for the last 30 years.



“Afghanistan needs a long-term strategy for economic development looking beyond 2014”

Prof. Hamidullah Farooqi*, Lecturer,
Economic Faculty, Kabul University

Prof. Farooqi admitted in his presentation that the World Bank initiated a public discussion on how the transition process could affect economic development in Afghanistan. The economist contributed to the discussion by examining how the country can replace foreign aid with private sector investment. He asked all stakeholders from the public and private sector to work on a joint strategy for economic development. From his point of view, this strategy has to rely on cornerstones, which already enabled the economic boom in the past ten years. For him the following three issues have been relevant in accelerating economic growth since 2001: Firstly, the government has positioned the country as a transit route between Central Asia and South Asia and trade has become a growth engine for Afghanistan's economy. Secondly, the rising demand in sectors like services and construction enabled private investment. Thirdly, key sectors such as agriculture and mining provide vast investment opportunities for domestic and foreign companies. In his view, these positive facts have to be considered in a strategy for Afghanistan's development after 2014. To use these opportunities, the

Afghan government has to set a clear framework for starting and doing business in Afghanistan. Prof. Farooqi named the provision of security and stability, but also the enhancement of the regulatory environment as cornerstones for the potential strategy. At the same time, the international community has to pledge a long-term commitment to support Afghanistan's future. He strongly believes that the International Conference in Bonn was one step into this direction.

In the end, Prof. Farooqi stressed that any strategy for economic development has to take into account the realities in the country and develop a vision looking beyond 2014. Thereby, it is of utmost importance to focus on opportunities without neglecting the challenges faced by Afghanistan.

* Professor Hamidullah Farooqi is a famous economic analyst in Afghanistan and is working as a lecturer in the Economic Faculty of Kabul University. Beside his academic activities, he acted as the Minister of Transport and Civil Aviation and as the Chief Executive Officer of the Afghanistan International Chamber of Commerce (AICC). Prof. Farooqi received his Diploma in Business Development from Kabul University and his Master's Degree in Public Economic Administration and Trade from the Queens College in New York.

“Afghanistan’s opportunity is its location between Central and South Asia”

Prof. Saifuddin Saihoon*, Lecturer,
Economic Faculty, Kabul University

Prof. Saifuddin Saihoon shared the opinion that Afghanistan needs to become an attractive location for business and investment to cushion the impact of the transition process. He strongly believes that the transition process will negatively affect the private sector. In order to enable sustainable economic growth, Prof. Saihoon sees regional economic cooperation as one of the key issue areas for the future development of Afghanistan. In his presentation he highlighted that the Afghan government has already done its homework in this regard: Since 2001 the country has been positioned as a transit route between Central Asia and South Asia. Cross-border trade agreements are close to being ratified and will reduce tariffs over a period of time, while a transit and transportation agreement with Pakistan allows Afghan goods to be exported expediently and unhindered to the frontiers of India and China. Prof. Saihoon believes that the success of the New Silk Road as an engine for economic growth widely depends on how the countries in Central and South Asia will solve their political disputes. In this regard a regional partnership between Afghanistan and its neighbors would pave the way to economic integration.

Prof. Saihoon sees different economic advantages in regional cooperation for Afghanistan: On the one hand the country will be enabled to attract foreign direct

investment in key sectors like agriculture and mining. He sees the current interest of neighboring countries to invest in the mining sector as a promising trend. On the other hand regional cooperation would facilitate knowledge transfer to Afghan companies. Prof. Saihoon strongly believes that Afghan entrepreneurs could technically benefit from joint ventures with Indian, Chinese, Iran or Pakistani companies, which already sell their products to the world market. In order to enable economic cooperation across borders, Prof Saihoon preferred to initiate regional infrastructure projects, which connect Afghanistan with its neighborhood.

* Professor Saifuddin Saihoon is the Head of Economic Department of the Policy Studies Center at Kabul University and is teaching at the Economic Faculty. He published dozens of analytical articles in national and international magazines. Prof. Saihoon earned his diploma and masters’ degree at Kabul University.



MINISTRY OF COMMERCE & INDUSTRIES ISLAMIC REPUBLIC OF AFGHANISTAN

“The Public Sector needs to set incentives for private investment through sound budget planning”

* Dr. Anwar ul-Haq Ahady

In his speech Dr. Anwar ul-Haq Ahady presented a positive outlook on the economic development after 2014. In his view, the country has built a foundation for economic growth in the next years: In the last decade the private sector grew annually ten percent in average. The income of the state budget tripled. The inflation did not rise above 10 percent and the currency is stable. Considering these facts, Dr. Ahadi expects that the economy will not fall down after 2014. Nonetheless, some sectors will be negatively affected by the withdrawal of foreign forces and the decline in foreign aid. In this regard, Dr. Ahadi mentioned the transport and logistic sector, which mostly depends on orders from foreign partner organizations. In contrast, the agricultural sector will be nearly untouched by the transition process. Dr. Ahadi asked the donor community to decrease foreign aid gradually and predictably so that the public and private sector can adapt to changing circumstances. He stated that the commitments of the International Bonn Conference were an important step to build a roadmap for the decade after 2014. For the Ministry it is important that the future

financial support will be channeled through the Afghan budget to support institution building. In this regard, Dr. Ahadi set the objective that at least 50 percent of aid has to be spent “on the budget”. In exchange, the minister promised to consider the needs of the private sector in the budget planning. He thinks that economic activities need at least an infrastructural basis, which has to be improved by the government in Afghanistan. Furthermore, he promised to support private investment through strengthening the demand for products and services. In the end, Dr. Ahadi shared the projection of the World Bank that Afghanistan needs at least a financial support of six billion US-Dollar for military spending and four billion for non-military spending annually after 2014.

* Dr. Anwar ul-Haq Ahady is acting as the Minister of Commerce and Industry. He received his Diploma and Master’s Degree in economics and political science from Beirut American University and finalized his PhD in political science at the North Western University (USA). Dr. Ahadi worked as an assistant professor at Carlton University from 1985 to 1987. Since 2002 Dr. Ahadi has been working as a Director of Afghanistan’s Central Bank, Minister of Finance and Minister of Commerce and Industries.



what is your IDEA? our idea is inside the **flowerpot** below.
do you want to know what is it? If so, just join us.



Beyond the Conferences in Chicago and Tokyo:

How to Break the Vicious Cycle of Budget Restrictions and Economic Decline

ACCI's roundtable came to the conclusion that Afghanistan is facing a two-folded challenge in the transition process until 2014. Due to the declines in military and development assistance the Government of the Islamic Republic of Afghanistan will face strict budget restrictions. Under these conditions the government will not be able to ensure security in the country and provide basic services to the population. In order to close this financial gap, the participants of the roundtable asked the international community to reduce aid gradually and avoid unpredictable cuts. Furthermore, they agreed that in the long-term the public sector has to rely on its own income to finance the state's activities. Therefore, all stakeholders suggest to creating an enabling environment for doing business, which ensures economic growth and serves as a source for domestic revenue. However, there is broad consensus among the government, private sector and international community that most of the growth in the Afghan GDP since 2002 has come from military spending and donor aid, and not from sustainable growth in the Afghan economy. The experts of the World Bank believe that cuts in foreign spending could slow down economic growth or cause a

countrywide recession after 2014, which minimizes the basis for revenue collection. In the end, the transition process could develop a vicious cycle of budget restrictions on the one side and economic decline on the other side.

The Afghan government and international community acknowledged the risks inherent in the transition process and agreed to negotiate on further financial support during the conferences in Chicago and Tokyo. In May 2012 the NATO Conference in Chicago made the first step and ensured the funding for the Afghan National Security Forces (ANSF) until and beyond 2014. According to the joint declaration, the security forces will need an estimated annual budget of 4.1 billion US-Dollars throughout the coming decade. Thus far, a number of countries have committed resources toward this financial goal, though many more will specify amounts in the coming weeks and months. The United States pledged more than the half of the amount, Germany more than 190 million and the United Kingdom assured 110 million US-Dollars annually. With this external support the Afghan government will be enabled to ensure security and stability at least in the major cities and road

connections in the upcoming years.

The Tokyo Conference in July 2012 will follow-up this issue and will provide a forum to discuss the financial support for non-security related activities of the government. At the conference, the Afghan government will present a proposed budget for the National Priority Programmes, which are aimed at stabilizing Afghanistan's economy, improving domestic revenue generation and increasing the opportunities for employ-

conditions of decreasing financial support from outside.

In the end, the conferences in Chicago and Tokyo will send a positive signal to Afghanistan. The international community ensures further financial support for building a stable and prosperous country. It should however be kept in mind that aid from outside will be gradually reduced in the coming years forcing the government to rely on its own resources. Then the question will come up



ment. The Afghan government is now hoping that the Tokyo Conference yields a joint roadmap to achieve goals through the sequenced implementation of key elements within the National Priority Programmes, which will be financially supported by the international community. This way, the conference shall provide a long-term strategy for the transition process and give an answer how the Afghan government can ensure economic development, service delivery and poverty reduction under the

how to enable private sector investment and economic growth in the country. In this regard, the Afghan government has to do its homework and set the right conditions for doing business. In any case, the success of the transition process will depend on whether Afghanistan can turn its comparative advantages into competitiveness becoming an attractive location for business and investment.

Text: Hashem Rasouli and Michael Paulo

Press Review: The Transition Process in Worldwide Media

The transition process has become one of the major headlines in the international media. The Voice of America asked ironically in regard to the withdrawal of foreign forces where the Afghan companies should go. The article highlights that the environment for doing business is deteriorating in Afghanistan. In contrast, the Strategic Studies Institute states in its report that Afghanistan has a lot of comparative advantages, which have to be turned into competitiveness until the end of the transition process. In this regard, PBS Newshour names the vibrant private sector as one of the comparative advantages of the country, on which the population can rely as a growth engine for economic growth without relying on external aid. The New York Times examines the implications of the transition process on the provision of security. The newspaper concludes that the Afghan government will be able to hold most cities and major roads after 2014.



Voice of America

15. April 2012

...“After 2014 the foreign forces will leave Afghanistan - where will these companies go? For example, we have 5-6 very big transport companies. There will be less and less supply and few supply lines. Where should these vehicles go? The Afghan government doesn't have a plan for transition,” said Hakimzada. Many Afghans are also worried about greater insecurity after foreign troops leave. Business owners travel with bodyguards - even for trips inside the capital. Their worry: kidnapping. While Kabul police say they have cracked down on the problem, many say it is merely under-reported by the media. Even businesses that are growing are worried about the future. After six years of operation, this Coca Cola bottling plant is still without reliable electricity. Instead, the factory depends on a generator that consumes thousands of liters of fuel each day - a temporary fix that seems more permanent with each passing year.



Strategic Studies Institute

28 March 2012

The good news is that Afghanistan has lots of potential wealth. The bad news is that Afghanistan is struggling to turn potential wealth into actual wealth. Afghanistan lacks what MIT Economist Walt Rostow used to call the preconditions for economic “take off.” Afghanistan is a landlocked country with

inadequate infrastructure. Only 7 percent of its roads are paved, and there is no railway nearby to carry heavy minerals to regional or global markets. In other words, Afghanistan's fatal flaw is poor market access. If products somehow get to the borders, bottlenecks cause them to get stuck there. As a result, farmers and miners have little incentive to increase productivity or boost output. To achieve Rostow's economic takeoff in Afghanistan, we need: a) a strategic vision; b) concrete projects to reach that vision; and, c) the political will and perseverance to make it all happen. A good historical example of the strategic vision that we need in Afghanistan appeared after World War II when Jean Monnet called for a European Coal and Steel Community. The Realists ridiculed Monnet for being hopelessly naïve and idealistic. Didn't Monnet know that France and Germany hated each other and had fought each other for centuries?



PBS Newshour

13. December 2011

Afghanistan, which has a population of about 30 million, has a farming and livestock industry as well as mining potential. The country recently awarded the mining rights to its largest iron deposit, the Hajigak mine, to a group of companies from India. The sale raised eyebrows -- but in a “good way” -- because it showed the potential for foreign investment in Afghanistan, said Byers. One of the ways to encourage foreign investors is by developing mechanisms that give them a more immediate return on their investments, he said. Also,

"There's a very vibrant private sector in the country. There are a lot of entrepreneurs and actors who want to take part, so we need to take advantage of that," he added. Currently, the Afghan government doesn't have the institutional capacity to handle all the funding it will need to run the country, said Christine Mulligan, former country director in Afghanistan for Mercy Corps. She suggested mentoring ministries to effectively manage funds and implement programs, and having international donors withhold funding until the Afghan government's capacity grows and it puts spending and performance targets in place.

The New York Times

New York Times

13. April 2012

... Based on current trends — some of which are depicted in the chart accompanying this article — the most likely outcome in Afghanistan is a mixed one. Come 2014, when NATO withdraws, we expect that the Afghan government will be able to hold most cities and major roads. That is because of the often underappreciated improvement in its security forces, combined with the hits taken by the insurgency in recent years, as well as the general lack of appeal the Taliban movement holds for most urban Afghans. Yet the government will probably still be unable to control many of the nation's rural areas, particularly in the East. On top of that, corruption among officials will perhaps further erode the government's legitimacy; the economy will suffer as the stimulus provided by foreign troops declines; and the 2014 electoral process could easily divide Afghans more than unite them. That said, 2014 is a long way off, and the situation could easily get better — or worse — than this extrapolation of current trends suggests.

Text: Michael Paulo



Tokyo Summit and Afghanistan's Business Potential

Suleman Fatimie and Arian Sharifi¹

Delegations from over 60 countries and 20 international organisations gathered in Tokyo on 8 July 2012 and discussed plans for economic development in Afghanistan. The delegates pledged a total of US\$ 16 billion in multi-donor aid to fill the Afghan government's fiscal gap and to develop the Afghan economy over the next four years. The event attracted widespread media coverage – inside and outside Afghanistan –

and raised hopes that the international community will stand by Afghanistan in the coming years. While this seemingly generous pledge by the international community does signal hopes ahead, if the Afghan government fails to correct the current state of affairs, this US\$ 16 billion will be as much a waste as the tens of billions of international aid has been so far. To go ahead and create real hope for the future of Afghanistan, the

Mr Suleman Fatimie and Mr Arian Sharifi are partners at Afghanistan Financial Services, a financial management firm in Afghanistan. The views expressed in this paper are those of the authors and do not necessarily reflect the views of ISAS.



Karzai Administration needs to come out of its 11-year old cocoon and bring about some bold changes in its economic development strategy.

At present, the bulk of the Afghan economy, about 95 per cent according to the World Bank, is donor-driven, whether financed through aid money or contracts for international military spending in the country. This clearly cannot be counted as the 'real' economy, simply because these activities will decrease proportionately with the draw-down of the international military forces and with the eventual reductions in international civilian aid. Therefore, if Afghanistan is ever going to become financially self-sufficient, it needs to work on building its 'real' economy, one that stands and operates independently of foreign aid. As such, it is high time the Afghan government puts its affairs in order and creates an enabling environment for private sector development. To do so, a multi-pronged approach is needed to connect practical support with political and institutional change. In our view, the following aspects are the most important areas that need to be reformed:

Legal Framework

A pro-business legal framework is nearly non-existent, and the existing laws are out of touch with ground realities. There is simply too much uncertainty about what rules and regulations apply. Some laws remain from many years ago, while others have been introduced recently. The new Investment Law was enacted in 2003, which needs a lot of improvement, but it is yet to be revised. In the past several years, the tendency has been to draft and enact as many laws as possible without much regard to regulatory impact assessments. Therefore, an overall review and amendment of existing laws is critical to make sure they are applicable and promote an environment conducive to business.

Institutional Framework

Over the past decade, several executive and semi-autonomous governmental agencies have been reformed or established to streamline procedures, reduce red-tape, provide effective and efficient services and information and also advocate a pro-business environment. While some of these institutions have brought about some positive change, the mere existence of multiple organisations, doing more or less the same thing, has become part of the problem. There is much infighting over executive powers and responsibilities. In most cases, the amount of red-tape has even increased, as the establishment of multiple organisations, working on the same issues, has led to duplication of roles and parallel structures. Therefore, a thorough mapping of roles, authorities and responsibilities of the relevant governmental and semi-governmental bodies must be conducted in order to reduce duplication, overlap, infight-

ing and unnecessary bureaucracy.

Economic Growth as Primary Objective

At present, the government's main objective in its dealings with the private sector is to raise its own revenues through taxes. This has led to a situation where the Ministry of Finance relentlessly pursues businesses for tax collection without regard to the potential survivability of the businesses. While generating internal revenues is critical for the government, the growth of the private sector must be the primary objective. Afghanistan's private sector is mainly composed of micro, small and medium enterprises, most of which are in their infancy phase when the chances of failure are high. The government should provide the environment for these firms to grow and expand, and if that would entail short- to medium-term tax breaks, the government should consider them. There is no doubt that mobilising more revenue remains a crucial objective, but that should not be sought at the cost of unreasonable financial burden on businesses that are struggling for survival. A balanced and sound tariff and taxation system could create the platform for real and sustainable growth besides serving as a healthy source of revenue.

Role of the Private Sector in Reforms

Private sector is the primary engine of economic growth in any market economy. As such, the Afghan private sector has a critical role to play when it comes to government's policy formulations. A constructive and progressive two-way communication line between the government and the private sector will substantially facilitate relevant policy and regulatory reforms. To date, the dialogue has been

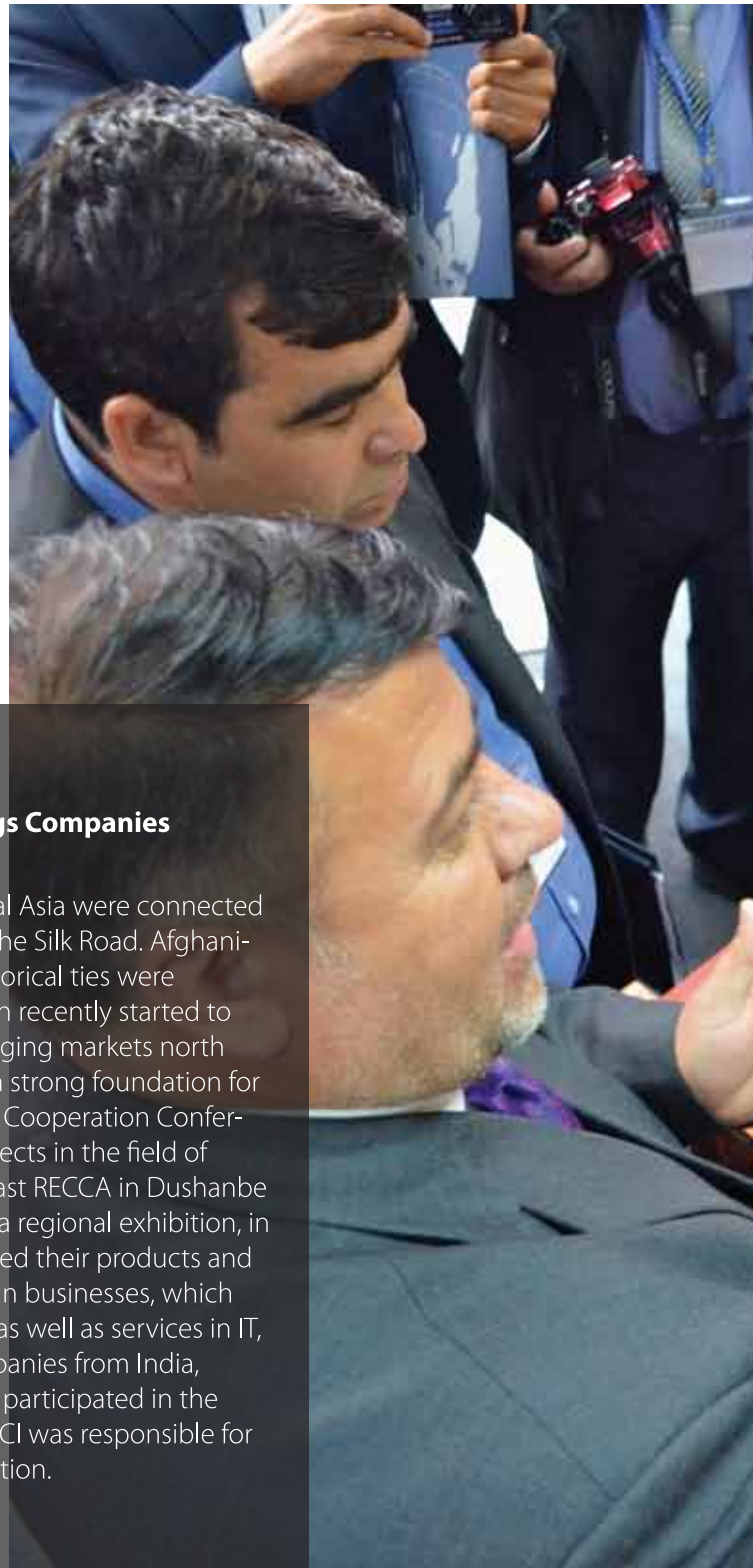
limited, and even that limited interface has to do with the few larger businesses which do not share the same challenges and interests as those of the micro, small and medium enterprises that compose the bulk of the private sector in the country. This large divide between the government and the business community is a major factor contributing to the mixed results of economic governance and reforms in the business environment.

Curbing Corruption

Widespread corruption has been one of the biggest obstacles to economic development in Afghanistan. Corruption is so prevalent that literally nothing can be done in government agencies without making some sort of payment. This has resulted in both a reduction in government revenue collection – as businesses pay bribes to have their taxes and customs duties reduced – as well as in many businesses failing. And this problem will continue, even get worse, if the Karzai Administration does not come up with a radical approach, firmly committed to curbing corruption.

To conclude, while the recent pledge of US\$16 billion of international civilian aid to Afghanistan is an important contribution which can help push the Afghan economy forward, Afghanistan will not get anywhere unless its government takes up responsibility of creating an enabling environment for private sector development. Pumping money into the Afghan economy is important for its survival, but there are many challenges facing the Afghan private sector that cannot simply be remedied by more money. Addressing those challenges requires bold, committed action on the part of the Afghan government.

ACCI IN PICTURES



March 2012:

The Regional Exhibition in Dushanbe Brings Companies from Six Countries Together

For centuries, the countries of South and Central Asia were connected to each other and the rest of the continent by the Silk Road. Afghanistan was at the heart of this network. These historical ties were disrupted by decades of war, before Afghanistan recently started to reclaim its position as a bridge linking the emerging markets north and south of the Hindu Kush. In order to build a strong foundation for economic cooperation, the Regional Economic Cooperation Conference on Afghanistan (RECCA) initiates joint projects in the field of infrastructure, trade and transport. During the last RECCA in Dushanbe ACCI contributed to this process by organizing a regional exhibition, in which 65 companies from six countries presented their products and services to visitors. Among them were 37 Afghan businesses, which showcased carpets, dried fruits, spices, marble, as well as services in IT, advertisement and printing. Furthermore, companies from India, China, Turkey, Belarus, Kyrgyzstan and Tajikistan participated in the trade fair. As one of the main organizers, the ACCI was responsible for the management and preparation of the exhibition.







March 2012:

Joint Chamber Established to Enhance the Conditions for Trade Between Afghanistan and Pakistan

Trade between Afghanistan and Pakistan has become complicated in the past years. In order to resolve trade and transit issues, the ACCI established the Pak-Afghan Joint Chamber of Commerce and Industry (PAJCCI) with three regional chambers from Pakistan. This step has been agreed in the Afghanistan Pakistan Transit Agreement (APTA). In the open ceremony Mr. Khan Jan Alokzai, the deputy chairman of ACCI, announced that the establishment of the joint chamber is an important step to enhance mutual trade and investment. He clearly stated that the chamber is a joint project of the Afghan and Pakistani private sector. Mr. Alokzai will act as the first Co-President of PAJCCI. In the next three years the expenses of the joint chamber will be covered by the British Embassy in Islamabad. This will enable the organization to represent the interest of traders on both sides of the border and to provide services to companies. The opening comes just months after Pakistan lifted its several-month halt on Afghan trade containers in Karachi and Peshawar ports.

Text: Michael Paulo



April 2012:

ACCI Distributes Food Items to Needy Families in Kabul

The Afghan Chamber of Commerce and Industries (ACCI) distributed food items among 4,000 needy families in the capital Kabul last Wednesday. Each of the family received 50 kilograms of flour, 25 kilograms of rice, five kilograms of oil, seven kilograms of sugar and one kilogram of tea. The humanitarian aid was provided by Afghan businessmen from Dubai in close cooperation with Afghanistan's Embassy in the United Arab Emirates, the Ministry of Foreign Affairs and the chamber. Among the beneficiaries were displaced families and workers from the Kabul Municipality. The social relief was provided through the Sakhawat Fund which has been established by ACCI to support needy families on cold weather, Ramadan and Eid days. During last three years, about 252,000 USD funds were collected both in cash and in kind and the chamber could assist 3500 needy families and 3500 Afghans worth assistance packages including flour, oil, rice and blankets have been distributed to each family. The fund is a charity program of the chamber to which businessmen and traders are constantly donating some amount of money.







June 2012:

ACCI Supports Companies in Realizing Innovative Business Concepts

In June ACCI hosted an informational event for member companies to present the activities of the Afghan Business Innovation Fund (ABIF). The ABIF is a facility of the Department for International Development (DFID), which disburses grants among innovative companies ranging from 100,000 to 1,000,000 US-Dollar every six months. The ACCI supports the fund to market the grants through networks and business relations. During the event Mr. Mohammad Qurban Haqjo, the CEO of ACCI, highlighted the importance of private sector led investment in Afghanistan's development and welcomed the continuing supports of DFID. "For Afghan investors the lack of financial sources remains a main challenge in starting and doing business." Among the participants were many company representatives who shared this opinion. For example, Mr. Mostafa Sadiq, the owner of Omid Bahar Company, has already prepared an application for his company to receive additional funding. He is planning to purchase modern equipment to produce quality juices. Mr. Sadiq explained that he already got access to various financial sources, but these are not enough to cover the investments.

ACCI Inside

ACCI Establishes Research Unit

The Afghan Chamber of Commerce and Industries (ACCI) informed different stakeholders from the public and private sectors on the establishment of its Research Unit during a working group meeting on the 17 July. The Research Unit will provide facts and figures on the business climate to enhance a common understanding of the challenges faced by small, medium and large businesses in Afghanistan. Therefore, the chamber is planning to develop a Business Climate Monitor, in which initially more than 500 member companies in Kabul and Balkh province will be polled. In his activities the Research Unit will be supported by the German research institute ifo, which is one of Germany's largest economic think-tanks and is widely known for its monthly Ifo Business Climate Index for Germany.

In order to consider the expectations of relevant stakeholders, the ACCI invited representatives from different organizations to discuss jointly the concept of its research activities. Among the participants were representatives of the Ministry of Commerce and Industries (MoCI), the Federation of Afghanistan's Craftsmen and Traders and other business associations. Furthermore, international partners like the German International Cooperation (GIZ), the Asia Foundation and USAID joined the discussion. During the working group meeting the German research-

ers Prof. Siegfried Schoenherr, Dr. Gernot Nerb and Dr. Klaus Abberger presented international standards in collecting and interpreting data on the business climate, current business situation and business outlook.

The researchers proposed that ACCI's Business Climate Monitor shall focus on two different types of surveys: Firstly, the Research Unit shall conduct a short survey quarterly to determine the business situation and outlook of companies in the country. In this way, the chamber will be enabled to forecast economic trends, which is especially important considering the transition process and its impact on the private sector. Secondly, the Research Department will conduct a yearly survey to identify the bottlenecks for doing business. The questionnaire therefore will be based on issue areas mentioned in the National Business Agenda. Among them are taxation, tariff reforms and insurance; land rights and rent for business premises; credit and other banking reforms; trade; laws, regulation and administration; and infrastructure.

The research activities will significantly strengthen the capacity of the chamber to present the interests of the private sector. The facts and figures of the Business Climate Monitor will be shared with relevant public and private stakeholders to enhance a common understanding of the challenges faced by businesses in Afghanistan.



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