Doing Business with Afghanistan
Harnessing Afghanistan’s Economic Potential

- Agriculture
- Food Processing
- Packaging
- Mining
- Energy
- Infrastructure
- Logistics
- Services

United Nations ESCAP
Economic and Social Commission for Asia and the Pacific
South and South-West Asia Office
Doing Business with AFGHANISTAN
Harnessing Afghanistan’s Economic Potential

Agriculture
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Foreword

*Doing Business in Afghanistan* presents an overview of the business environment available for foreign investors in Afghanistan and identifies the types of sectors and products that have a potential for growth.

The publication is an update of an earlier one prepared by the South and South-West Asia Office of UNESCAP to serve as a background document for the International Conference on Doing Business in Afghanistan hosted by the Federation of Indian Chambers of Commerce and Industry (FICCI) in New Delhi, India on 18-19 November 2013. This edition updates information on Afghanistan’s potential to inform the discussions at the Sixth Regional Economic Cooperation Conference on Afghanistan (RECCA VI) to be held in Kabul, on 3-4 September 2015.

As a development partner of Afghanistan, UNESCAP strives to support efforts of the Government of Afghanistan and its allies and stands ready to assist the country as it evolves as an important “land-bridge” between Central and South Asia.

I hope that this brief publication will help to stimulate discussions on the productive potential of Afghanistan and attract investors to this land of opportunity!

Nagesh Kumar

Head, UNESCAP South and South West Asia Office
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Doing business in Afghanistan

1. Macro-economic setting

Afghanistan’s economy has shown considerable resilience and strength in weathering political and economic transition. The year 2014 was marked by severe challenges with presidential elections and withdrawal of international security forces, and an end of protracted political deadlock. The newly formed government has taken a strong stand in pursuing peace, economic development, building infrastructure and strengthening regional cooperation.

The economy was hit hard with growth rate falling from 3.6 percent in 2013 to 3.2 percent in the transitory year of 2014, but signs of recovery are already visible. With expected pick up of industry and services sector in the second half of 2015, the growth rate for the year has been projected by UNESCAP at 4.5 in 2015 rising further to 5.0 in 2016.\(^1\) World Bank’s projections are in line with the UNESCAP’s, forecasting an average yearly growth of 5 percent in the medium-term to 2018.

In pre-2014 period, Afghanistan emerged from 25 years of conflict with some of the highest levels of poverty. Landlocked and vulnerable to natural disasters, Afghanistan’s economy had performed better than the comparator countries in terms of broad macro-economic indicators (Table 1). The economic growth was robust, inflation was low and public finance management made healthy progress (Table 2).\(^2\) Between 2002 and 2009, average per capita GDP increased by more than 75 percent in real terms.\(^3\) Debt-to-GDP ratio declined from 19.8 percent in 2008/09 to 8.1 percent in 2010/11 and debt service was 1.8 percent of exports of goods and services.\(^4\) The real GDP growth in 2012 was 10.9 percent supported by a good agricultural harvest, which helped to moderate inflation down to 7.6 percent. The year 2014 marked the third consecutive year of a maximum potential in agriculture. Structurally, years of good growth have also been years of good harvest. Substantial donor-support and international military spending over the years have been crucial in Afghanistan’s progress. Evolving gradually, the policy development during this period was laying foundations for private sector development.

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\(^1\) UNESCAP, *Economic and Social Survey of Asia and the Pacific 2015, Making Growth more Inclusive for Sustainable Development*, 2015, p. 4  
\(^3\) *Ibid.*, pp. 5-8. Strong performing comparator countries include Cambodia, Lao (People’s Democratic Republic, Liberia, Mali, Mozambique, Nicaragua, Rwanda, Tajikistan, Uganda and Viet nam.  
Table 1: Afghanistan’s performance relative to the strong performers cluster (prior 2014)

<table>
<thead>
<tr>
<th>Variable/indicator</th>
<th>Afghanistan trend</th>
<th>Trend of strong performers</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real average per capita GDP growth</td>
<td>Very rapid</td>
<td>Rapid</td>
<td>Growth in Afghanistan has been faster than in virtually all comparators; needs to maintain robust growth even if at somewhat lower rates</td>
</tr>
<tr>
<td>Average per capita GDP level</td>
<td>Rising sharply</td>
<td>Rising</td>
<td>Avoiding recession and continuing growth, especially employment growth, will be key</td>
</tr>
<tr>
<td>Inflation (GDP deflator)</td>
<td>Very low</td>
<td>Not so low</td>
<td>Needs to maintain good performance in controlling inflation during difficult transition</td>
</tr>
<tr>
<td>Structure of the economy</td>
<td>Rapid change</td>
<td>Rapid change</td>
<td>Afghan structural change appears to a considerable extent aid driven; needs new growth drivers</td>
</tr>
<tr>
<td>Government consumption</td>
<td>Flat</td>
<td>Flat</td>
<td>Government consumption for Afghanistan substantially higher due to external budget</td>
</tr>
</tbody>
</table>


Global trends in food and non-food products have had a strong pass through on inflation in 2014. The falling global oil prices since September 2014 were translated into lowered transport costs in January 2015 with transport price inflation falling from 19.5 percent to 2.5 percent in January 2015.5 Similarly, the fall in food prices globally as well as the exceptionally good years of harvest in the domestic agricultural sector had a positive effect on consumer price index.

Exports also increased for a second consecutive year as a result of strong performance of the agriculture sector. Another positive impact on export growth was the depreciation of the real exchange rate by 3.5 percent in 2014.6

Slow global demand, supply surplus, major breakthroughs in lifting embargo of the Islamic Republic of Iran and discovery of United States of America’s shale oil, among other developments led to sharp decline in oil prices. The prices are expected to remain under $70

5 World Bank, Afghanistan Economic Update, April 2015, available at: www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/05/15/090224b082e8582d/2_0/Rendere d/PDF/Afghanistan0economic0update.pdf
6 Ibid. p15
until the end of 2015, and under $100 in the upcoming five years. As an oil-importing country, Afghanistan is set to reap large savings on its oil import bill. The transport sector will further benefit from lower oil prices, creating demand for internal and regional trade by local producers. The immediate impact will be translated into lower food prices, which will highly benefit the poorest segments of the population. The consumption of more diversified diet is expected due to a stronger purchasing power with positive spillovers on the health of the population.

Table 2: Economic profile of Afghanistan

<table>
<thead>
<tr>
<th>Annual Indicators</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (millions US$ in constant prices 2005)</td>
<td>8588</td>
<td>10067</td>
<td>10393</td>
<td>11295</td>
<td>12529</td>
<td>13336</td>
</tr>
<tr>
<td>GDP growth rate (constant prices 2005)</td>
<td>2.3</td>
<td>17.2</td>
<td>3.2</td>
<td>8.7</td>
<td>10.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Population size (in millions)</td>
<td>27032</td>
<td>27708</td>
<td>28398</td>
<td>29105</td>
<td>29825</td>
<td>30552</td>
</tr>
<tr>
<td>Inflation (% change per annum)</td>
<td>30.6</td>
<td>-8.3</td>
<td>0.9</td>
<td>10.2</td>
<td>7.2</td>
<td>7.6</td>
</tr>
<tr>
<td>Government Expenditure (% of GDP)</td>
<td>21.1</td>
<td>20.8</td>
<td>20.6</td>
<td>22.3</td>
<td>17.4</td>
<td>22.8</td>
</tr>
<tr>
<td>Debt (% of GDP)</td>
<td>19.8</td>
<td>19.6</td>
<td>15.1</td>
<td>13.7</td>
<td>12.7</td>
<td>11.9</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>5.2</td>
<td>1.9</td>
<td>3.1</td>
<td>3.1</td>
<td>3.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Merchandise trade balance (% of GDP)</td>
<td>-23</td>
<td>-23.3</td>
<td>-29.6</td>
<td>-31.7</td>
<td>-42.4</td>
<td>-39.1</td>
</tr>
<tr>
<td>FDI inflows (% of GDP)</td>
<td>0.9</td>
<td>0.6</td>
<td>1.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Average exchange rate: national currency per US dollar</td>
<td>50.2</td>
<td>50.3</td>
<td>46.5</td>
<td>46.7</td>
<td>50.9</td>
<td>55.4</td>
</tr>
</tbody>
</table>


During the last decade, services sector has been a strong growth driver with significant boost coming from communications, followed by financial and business services, Government services and transport (Table 3). Construction growth was strong, reaching 11 percent of GDP in 2013, from 4 percent in 2002 and generating demand for construction materials. Although mining has contributed less than 1 percent of GDP in 2013 and has had an insignificant share of growth, it is believed to be a potential growth driver in the medium and long term, given the huge natural resource endowments of the country.
### Table 3: Sector shares in GDP, percentage

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>42.9</td>
<td>35.7</td>
<td>36.6</td>
<td>34.9</td>
<td>35.4</td>
<td>29.2</td>
<td>33</td>
<td>29.6</td>
<td>28.7</td>
<td>26.4</td>
<td>25.6</td>
</tr>
<tr>
<td>Mining, manufacturing and utility</td>
<td>16.6</td>
<td>17.0</td>
<td>16.0</td>
<td>15.2</td>
<td>13.8</td>
<td>13.8</td>
<td>12.4</td>
<td>12.7</td>
<td>12.4</td>
<td>11.9</td>
<td>11.4</td>
</tr>
<tr>
<td>Construction</td>
<td>5.0</td>
<td>7.6</td>
<td>9.2</td>
<td>11.0</td>
<td>10.4</td>
<td>11.2</td>
<td>10.2</td>
<td>10.6</td>
<td>11.0</td>
<td>10.8</td>
<td>11.0</td>
</tr>
<tr>
<td>Other industry</td>
<td>11.6</td>
<td>12.2</td>
<td>13.8</td>
<td>13.2</td>
<td>12.8</td>
<td>14.3</td>
<td>15.0</td>
<td>17.1</td>
<td>17.4</td>
<td>19.2</td>
<td>18.5</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>12.6</td>
<td>13.6</td>
<td>11.6</td>
<td>12.4</td>
<td>14.4</td>
<td>17.1</td>
<td>17.2</td>
<td>20.6</td>
<td>20.8</td>
<td>22.6</td>
<td>23.6</td>
</tr>
<tr>
<td>Wholesale, retail sale, restaurants</td>
<td>9.6</td>
<td>9.3</td>
<td>8.8</td>
<td>8.2</td>
<td>8.1</td>
<td>8.1</td>
<td>7.5</td>
<td>7.6</td>
<td>7.8</td>
<td>8.8</td>
<td>8.3</td>
</tr>
<tr>
<td>Services (total)</td>
<td>35.2</td>
<td>38</td>
<td>36.5</td>
<td>37.2</td>
<td>38.1</td>
<td>43.8</td>
<td>44.6</td>
<td>48.5</td>
<td>48.3</td>
<td>52.3</td>
<td>53.9</td>
</tr>
</tbody>
</table>

Source: UNESCAP estimates based on UNSD statistics, individual country data collected from national statistical offices. Note: Excluding opium production. Opium’s contribution to GDP is omitted from official GDP estimates.

The dependence on official development assistance (ODA) has been high but has seen a significant decline in recent years (Table 4). Bilateral donors have strong tendencies to direct assistance to the social sector, yet some increase in external resources is noticeable in the economic and productive sectors (Figure 1).

While 2014 and 2015 will likely show a significant drop in ODA due to the political transition, the positive economic outlook and political stability are likely to reverse this trend in the coming years.

### Table 4: Official Development Assistance

<table>
<thead>
<tr>
<th>Donor assistance</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (in USD million)</td>
<td>4048.29</td>
<td>5182.71</td>
<td>5539.55</td>
<td>5985.32</td>
<td>5691.72</td>
<td>4404.03</td>
</tr>
<tr>
<td>Total receipts % of GDP</td>
<td>37.6</td>
<td>41.2</td>
<td>34.5</td>
<td>31.2</td>
<td>26.7</td>
<td>20.4</td>
</tr>
</tbody>
</table>

Afghanistan’s growth is largely driven by private consumption, followed by government expenditure (Figure 2). The investment rate is low and saw a slight decline in 2014, with a drop in the number of registered firms in the same year.\(^7\)

Afghanistan’s primary export goods include fruits and nuts, medicinal plants, carpets, wool and cotton, and precious and semi-precious stones. Construction, transport and mining are the sectors that receive strongest international attention with investors coming from South Africa, Turkey, United Arab Emirates, Canada, United States, India, the Islamic Republic of Iran, and China among other countries.

The transition to the Afghan control of security brought renewed optimism and belief that Afghanistan is back on high-growth track and prosperity. The foreseen political stability provides a unique opportunity to set Afghanistan as a “land-bridge” that would link Central and South Asia.

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Figure 2: Components of Gross Domestic Product, 2013

![Chart showing the components of GDP: Private consumption, Government consumption, Fixed investment, Export of goods and services, Import of goods and services.](chart)


<table>
<thead>
<tr>
<th>Exports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principal exports</strong></td>
<td>Fruits and nuts, medicinal plants, hand woven carpets, wool, cotton, hides and pelts, precious and semi-precious gems</td>
</tr>
<tr>
<td><strong>Major destination of exports</strong></td>
<td>Pakistan, India, Uzbekistan, Tajikistan, Russia</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Imports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principal imports</strong></td>
<td>Machinery and other capital equipment, food, textiles, metals, household items, petroleum and petroleum products</td>
</tr>
<tr>
<td><strong>Major sources of imports</strong></td>
<td>Pakistan, United States of America, Russia, India, China, Kazakhstan, Germany</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foreign Direct Investment (FDI)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major sectors receiving FDI</strong></td>
<td>Construction and construction materials production, transport and storage, mining and quarrying</td>
</tr>
<tr>
<td><strong>Major investing countries in Afghanistan</strong></td>
<td>South Africa, Turkey, United Arab Emirates, Canada, United States, Pakistan, the Islamic Republic of Iran, England, China, Netherlands, India</td>
</tr>
</tbody>
</table>

Table 6: Major agricultural and industrial products

<table>
<thead>
<tr>
<th>Sector</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and allied</td>
<td>Wheat, fruits, nuts, wool, mutton, sheepskins and lambskins</td>
</tr>
<tr>
<td>Industry</td>
<td>Small-scale production of bricks, textiles, soap, furniture, shoes, fertilizer, apparel, food-products, non-alcoholic beverages, mineral water, cement, hand-woven carpets, natural gas, coal, copper</td>
</tr>
</tbody>
</table>


Table 7: Labour force (percentage), 2013

<table>
<thead>
<tr>
<th></th>
<th>Rural</th>
<th>Urban</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation Rate</td>
<td>51</td>
<td>43</td>
<td>55.3</td>
</tr>
<tr>
<td>Unemployment rate percent of labour force</td>
<td>8.2</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Underemployment rate percent labour force</td>
<td>18.6</td>
<td>8.6</td>
<td>15.3</td>
</tr>
</tbody>
</table>


Table 8: Distribution of the employed population by economic sector, 2013

<table>
<thead>
<tr>
<th>Sectors</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming and livestock</td>
<td>50</td>
</tr>
<tr>
<td>Various private services</td>
<td>15</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>11</td>
</tr>
<tr>
<td>Construction</td>
<td>10</td>
</tr>
<tr>
<td>Manufacturing/processing</td>
<td>7</td>
</tr>
<tr>
<td>Public administration</td>
<td>6</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>6</td>
</tr>
<tr>
<td>Education</td>
<td>4</td>
</tr>
<tr>
<td>Health</td>
<td>1</td>
</tr>
<tr>
<td>UN/NGOs</td>
<td>1</td>
</tr>
</tbody>
</table>

2. The policy environment for promoting investment

The Afghanistan National Development Strategy (ANDS) of Afghanistan laid strong emphasis on private sector development as a cornerstone of growth and poverty reduction in Afghanistan. The principles of free market have been incorporated in Article 10 of chapter 1 of Afghanistan’s new Constitution, which states that “The State encourages and protects private capital investments and enterprises based on the market economy and guarantees their protection in accordance with the provisions of law”.

Afghanistan Investment Support Agency (AISA) has come out with a detailed account of the enabling policy environment and identified sectors of opportunities for investment in Afghanistan.

The Law on Private Investment (2005) in Afghanistan does not discriminate between domestic and foreign investment. Foreign ownership to the extent of 100 percent is allowed in most of the economic sectors with full repatriation of profit. There is no restriction on capital flows and currency conversion. AISA acts as one-stop shop for investors and business license is issued within 2 to 3 days at AISA. Companies are not required to deposit any amount in a bank to start a business. According to the World Bank’s Doing Business 2015 report, globally, Afghanistan stands 24 in the ranking of 185 economies on the ease of starting a business (Figure 1). However, it should be noted that according to the same report, Afghanistan ranks 183 out of 189 economies in the ease of doing business, partly due to difficult security situation.

Afghanistan has the lowest tariff rates in the region compared to the countries in Central Asia and South Asia. There is 2.5 percent tax on imported machinery and only 1 percent tax is imposed on imported raw materials. Corporate income tax rate of 20 percent is low by regional standards and personal income tax ranges between 0-20 percent.

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The number of commercial banks including public and private banks and branches of foreign banks was 15 in 2014, based on the Afghanistan’s Bank Association.\textsuperscript{15} Total assets of the banking sector increased from around US$600 million in 2005-06 (roughly 9 percent banking assets to GDP ratio)\textsuperscript{16} to almost US$4 billion in December 2013 (almost 20 percent of assets to GDP ratio).\textsuperscript{17} Prime lending rate in Afghanistan at 15 percent is comparable to the neighboring countries. The share of gross domestic investment rose from 12 percent of GDP in 2003 to 17 percent in 2013.\textsuperscript{18} Foreign Direct Investment accounted for about a third of the private investment. Construction has received the highest share of private investment (38.1%), followed by services. Industry received almost a quarter of total private investment. Agriculture had the least share.

The tax code was restructured and clarified in 2005 and the Income Tax Law was passed in 2009. Customs tariffs have been rationalized.\textsuperscript{19}

**Figure 3: How Afghanistan and comparator economies rank on the ease of starting a business, 2015**

![Graph showing ease of starting a business in Afghanistan and comparator economies, 2015](image)

*Source: The World Bank and IFC, Doing Business 2015, www.doingbusiness.org*


The Mineral Law (2005) and the Hydrocarbon Law (2006) were the major initial steps towards creation of a regulatory framework for the development of these sectors and creating an enabling environment for attracting and retaining private sector investment.\textsuperscript{20} Aided by the World Bank and the United Kingdom’s DFID, Afghanistan is making an effort to achieve compliant status in the Extractive Industries Transparency Initiative (EITI). Achieving compliance will send a positive signal to potential mining investors. Reportedly, the Ministry of Mines and Petroleum plans to release several mineral tenders following the passage of an investor friendly Mineral Law.\textsuperscript{21} A Telecommunication Law (2011) has replaced the previous law and an Information Communication Technology Law seeking to lay the groundwork for a new industry in electronic commerce.

Afghanistan is a member of a number of regional cooperation agreements, namely, SAARC, ECO, CAREC, APTTA and SAFTA. As an Least Developed Country (LDC) under SAARC, Afghanistan enjoys duty-free access to India for all except 25 products that are sensitive for security and human health considerations. Duty free and quota free access is also available to Afghan products under an LDC Market Access Initiative with Canada and a Generalized System of Preferences (GSP) Treatment Agreement with Japan. “Everything But Arms” agreement (EBA) with the European Union grants duty free access to Afghan products. As a LDC, Afghanistan is eligible for duty free access to the market of the United States of America for about 5,700 products under the GSP.\textsuperscript{22}

Afghanistan has also signed bilateral Trade and Economic Cooperation Agreement with Russia and Turkey, a Bilateral Reciprocal Promotion and Protection of Investments Agreements with Turkey, a Bilateral Preferential Trade Agreement with India, a Bilateral Investment Treaty with Germany, a bilateral Investment Incentive Agreement with the United States and a Trade and Investment Framework Agreement with the United States of America.\textsuperscript{23}

Afghanistan had applied for accession to the WTO and is taking steps to accelerate the process of accession. The Government of Afghanistan is working to bring legislation on patents, trademarks and copyrights in compliance with the WTO standards.\textsuperscript{24} In line with the Istanbul and Almaty (now Vienna) Programmes of Action for the LDCs and the Land Locked Developing Countries, the South and South-West Asia Office of the UNESCAP, in collaboration with the International Trade Centre, Geneva has launched a series of capacity building programmes for the Government and private sector officials of Afghanistan to support Afghanistan’s accession to WTO. Five such capacity building programmes have already been held from 2012 to 2014. Besides providing a general overview of costs and the benefits associated with the WTO

\textsuperscript{22} Ibid., pp.32-33.
\textsuperscript{23} Ibid., p.32-33.
\textsuperscript{24} Ibid., p.40.
membership, the capacity building workshops covered a diverse set of negotiation topics and subjects related to accession process. The programme was also designed to continue the constructive policy dialogue between Afghan government officials and private sector representatives to address knowledge gaps in the WTO negotiation process in select priority areas.

In July 2013 the Government of Afghanistan announced the Investment Incentive Policy focused on development of industry, construction, export promotion, agriculture and mining. The policy also aimed at strengthening confidence among the investors including the foreign investors and to reassure continued support of the Government to promote business to create sustainable employment even beyond 2014. The policy, subject to certain terms and conditions, liberalized allocation and renting of government land, granted tax holidays and exemption, subsidized power tariff, provided for concessional loan (in agriculture) and exempted small and medium mines from bidding.²⁵

Afghanistan is a member of the World Bank’s Multilateral Investment Guarantee Agency (MIGA). The Overseas Private Investment Corporation (OPIC), a U.S. Government’s development financial institution supports U.S. companies in Afghanistan by offering finance, political risk insurance and private-equity investment.²⁶

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3. Sectoral opportunities

Situated strategically at the heart of Asia, Afghanistan is a land bridge connecting South Asia with Central Asia, Eurasia and the Middle East. Afghanistan is also a key transit route for oil and gas of Central Asia to reach the major sea ports and markets of South Asia and overseas.27

Afghan diaspora worldwide are taking interest in investing from their home-base abroad. Apart from investing they also provide links with the overseas market.28

Major sector of opportunities for investment include:

Mineral resources

Afghanistan has rich deposits of copper, gold and iron, salt, industrial minerals (which could be used in the glass, ceramic, chemical and fertilizer industries), non-precious mineral such as lead and cement grade limestone, construction materials, dimensional stones and gemstones, coal and hydrocarbon (mostly natural gas). Known precious and semi-precious stones include emerald, jade, amethyst, alabaster, beryl, lapis lazuli,29 ruby, quartz, and sapphire. It is stated that more than 1400 mineral deposits have been identified so far. Most of these deposits have remained untapped. Over and above, there seems to be a vast area where the potential is not known and could be explored.

It is also claimed that Afghanistan’s iron and copper deposits are world-class.30 Large investments are being made in copper deposits in Aynak (near Kabul) and iron deposits in Hajigak (Bamyan province). There are limited activities in the mining sector in small coal operations, limestone, construction materials, gemstones and dimensional stones.31

Afghan marble is stated to be of good quality and in high demand especially in the gulf. The industry needs investment in equipment and expertise.

The development and exploitation of copper reserves including in copper smelting facilities offer another potential area of investment. There is a growing demand for copper in the region including in the large markets of China and India. Afghanistan has sizeable copper reserves in Kabul and Loghar provinces. The three major reserves identified are in Jawkhar, Darband and Aynak. Around 300 more deposits are known.32

30 Ibid.
Major iron deposits in Afghanistan are located primarily between Herat and the Panjsher valley. Hajigak in Bamyan province is known to be the largest reserves in the Middle East. There are also deposits in Badakhshan and Baghlan provinces. There has not been any review of iron ore deposits for over thirty years; further exploration and assessment is called for.

Afghanistan’s gold deposits are located in the northern provinces of Ghazni, Badakshan and Takhar and are utilized by artisanal miners. The best known sources are Zarkashan and Samty with an estimated supply of 20 to 25 tons. There is a significant investment potential in gold exploration activity.

Development of mining sector is essential for the ‘reconstruction and rehabilitation’ of Afghanistan. Mineral based construction materials like paving stones, cement and cement blocks, bricks, gravel, steel, sand glass and tiles are in local demand. Cement is now being imported from Pakistan and Iran but can be domestically manufactured in Afghanistan to substitute imports. Local manufacture, if produced in international quality, has the competitive advantage over imports helping to diversify the economic structure and create jobs.

Afghanistan’s unmet demand for energy translates into a big potential for investing in the country’s coal reserves.

Today, mining resources are mostly occupied by the failed State Owned Enterprises (SOEs). Others are subject to small scale and mostly illegal operations. The opportunities in this sector are still governed by the system of government tendering though AISA offers guidance to interested investors in the bidding process and introduces potential investors to the relevant ministries. AISA has observed that “experience in other countries shows that private operators are, for the most part, more effective in the exploitation of natural resources and mining”.33

However, the legal and regulatory regime needs to be fully developed to complete the privatization process. Some of the mineral rich areas of Afghanistan along the southern and eastern borders face security issues. There is also shortage of skilled mining labour, which adds to the start-up costs.34

According to the AISA the following criteria are of particular importance to the investors in the mining sector.35

- Mining legislation, which includes clarity of ownership and terms of operations
- Clear criteria for granting private mining rights and title
- Competitive and transparent taxation system that adheres to international standards and best practices
- Security and political stability
- Mining potential and geological research and information

The challenges that should be addressed are:

- Transition to a market economy: this can unburden the Government from control over natural resources, subsidies to inefficient production in the SOEs and help to modernize the sector in the hands of the private investors
- Security: Many mines are located in areas where the Government control is less effective
- Lack of infrastructure (power, water and transport): poor rural roads increase the shipment costs
- Obsolete mining practices: mining methods and practices are reportedly obsolete and date back to the 1980s and before
- Lack of investment in modern machinery: Replacement of outmoded machinery will increase start-up costs for investors; up-to-date quarrying and processing technologies/facilities are important and crucial
- Unexploded ordinance: Afghanistan is one of the most heavily mined countries in the world; security and precautions are most essential for exploration activities
- Shortage of skilled workforce: Due to the shortage of locally available skilled workers skilled manpower from overseas (engineers, managers and machinists) will have to be arranged and this will increase the start-up costs
- Landlocked location: Landlocked status increases the costs of transport
- Research and Technology: Geological clarity is essential for directing investment
- Legal and regulatory framework: Implementation of the new Minerals and Hydrocarbon Law will be demanding on the capacity of the Government
- Access to Credit: Mining being capital intensive and high risk activity, access to institutional credit is essential for the growth of investment in this sector.

It is reported that the “Government of Afghanistan has identified key state-owned enterprises for privatization and financial institutions are building capacity and working alongside investors to provide reliable credit facilities. Security and de-mining is gradually improving”.

**Agriculture, agro-business and food-processing**

Afghanistan is known for the cultivation of high-end horticultural crops such as raisins, pomegranates, pistachios and almonds. Dried fruits and nuts from Afghanistan have traditionally established brand value in certain export markets. New companies can potentially take advantage of this traditional reputation and export such products. With some marketing effort the reputation for traditional fruit products could be extended to a wider variety of other

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37 *Ibid.*, p.16. Restructuring is also taking place in power sector. It is reported that the Government of Afghanistan, with the financial support from the World Bank is working on the restructuring of the state owned power enterprise “DABM”, which owns and operates all existing power plants, distribution systems and transmission lines in Afghanistan. Similarly, the Government’s effort to establish bilateral cooperation agreements for power trade with the neighbouring Central Asian countries has been supported with the assistance from the USAID. The USAID has also assisted the Government’s effort to revitalize the North-East and South-West Transmission Systems through power utility companies. See *Ibid.*, pp. 8-9.
processed food and beverages in large neighboring markets of China, India, Iran and Pakistan. Afghanistan is naturally well endowed with appropriate climate and surface water to cultivate a large variety of fruits and vegetables, which can be dried, canned or processed. Reportedly, Afghanistan has about a million farms and 2,000 wholesalers in horticultural products. There is scope for investment in intensive commercial farming in horticulture crops. Besides, agricultural packaging provides another opportunity for investment. The current packaging is outdated and leads to significant waste of post-harvest agricultural products. Development of packaging industry for horticultural products is critical if Afghanistan has to develop export business in horticultural items.

Food processing provides another opportunity for investment. Afghanistan imports fruit juice in large quantity; the market size is big and growing and there is scope for investment in import substitution. In the vegetable oil industry the demand was once largely met through import. Several vegetable oil processors have come up in the domestic market. There are investment opportunities in processed fruits and vegetables, snack foods, packaged biscuits, fruits concentrates, pickles and fresh fruit jams. Investment in food-processing industry will generate demand for downstream industry in packaging, bottling, machinery for agriculture, agro-processing and food processing and chemicals.

It is important to tackle the transport and logistics challenges in order to develop this sector. Improved road conditions, seamless movement inside the country and along the transit routes, cold chain, refrigerated shipment, efficient border custom handling are important factors in promoting business in food processing. Establishing standards and inspections and improving sanitary environment for quality assurance are critical for business to succeed in this sector. Setting up of testing laboratories with facilities of internationally recognizable certificates of inspection will be a useful step. Availability of uninterrupted quality power (electricity) supply, storage facilities in controlled conditions and investment in the modern machinery and equipment replacing the old and obsolete ones are important prerequisites to promote investment in this sector. Many of the existing companies in Afghanistan in this sector, especially in the dried fruit industry are small and medium enterprises. Facilities for long term finance for the SMEs need to be developed.38

**Carpets**

Carpet industry of Afghanistan enjoys traditional reputation as a handicraft and has a brand image, which offers the item “a good basis for improved marketing”. A point of strength of this sector is availability of sufficient skilled manpower. Non-perishability of this product confers transport and storage advantages. However, companies have reported difficulties of availability of land for warehouses and other operational facilities. Non-availability of domestic sources of raw materials (wools, dyes and other inputs) primarily due to devastation of local sources makes the industry depend on import through Pakistan. Apart from adding to transport and customs costs, quality of imported raw materials is also sometimes not reliable. Many carpet

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traders, who primarily export this product, have reported high transport costs since it is not viable to ship large volumes of such heavy items by air. Furthermore, shipping through Pakistan and Iran, reportedly adds costs and time.

It is stated that carpets from Afghanistan are shipped to Pakistan in semi-finished form for final finishing. Afghanistan’s domestic finishing facilities are either destroyed or obsolete. This arrangement adds to the costs and could potentially infringe intellectual property. A finishing facility has reportedly come up in Mazar-e-Sharif\(^\text{39}\) but there is still sizeable opportunity for investing in domestic finishing business.

**Construction materials**

Construction has so far been an important growth driver in Afghanistan and will continue to remain a major activity in times to come. Overseas contractors and imported machinery and materials are predominant in this sector and local contractors are shaping up gradually to takeover such projects. Concomitant with this development there is enormous opportunity for local sourcing of construction materials if investment is made into this sector. While domestic demand for construction materials will be robust, good quality construction materials, if produced locally, will also find their ways into export market.

**Telecommunication and IT enabled value-added services**

Communication has been a significant growth driver in Afghanistan in the last decade. While telecommunication has expanded and there is still scope for further expansion of mobile telephony, a virgin area of investment remains in the field of Information Technology enabled value-added services like data processing and data transfer; process control; business processing operation and call centers.

**Transport and logistics**

Development of transport and logistics is vital for performance of other sectors in the economy. Afghanistan is strategically located as a potential transit hub connecting South Asia with Central Asia, Eurasia and the Middle East and provides the landlocked energy basin of Central Asia key transit route to the sea ports and the potentially large markets of India, China and other overseas destinations. Afghanistan is poised well to provide transit services at a price. Thus transport and logistics in Afghanistan are critically important from a regional perspective apart from their values as domestic utilities. The sector is open for investment and is a growing market. The start-up costs are modest and overheads are low. Even a small operator can generate a large turnover. Demand for transport and logistics is high in Afghanistan and will continue to increase. The commercial transport is a high growth sector and far outpaces transport of donor materials. The need for transport of industrial and consumer goods will increase with the improvement of the economy. An important source of demand for logistics arises from the need for cold chains if agribusiness, agro-processing and food-processing have

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to be developed as a priority sector for investment. The country is deficient in cold-infrastructure at present.

However, improvement of road condition is critical for this sector to develop. It is stated that significant portions of the major highways and transit route needs repair and upgrading. Companies have expressed concerns regarding indefinite closure of important highways for security reasons without prior notice; this need to be avoided. Being landlocked, transport costs tend to be high and seamless access to sea ports of the neighbouring countries is important for this sector to comply with delivery commitments. This will require strengthening regional cooperation to facilitate trade and transit. Despite some progress achieved in the automation of customs processes full integration is yet to be achieved. It has been reported by companies that there are unofficial custom points and multiple custom checks. Authority of the central government is limited in certain regions and local warlords impose arbitrary taxes and custom charges on overland transport. Improvement of reliable electric supply is needed for sophisticated logistic services to operate; companies mostly depend on their own power backups.  

**Labour-intensive manufacturing**

Promoting low-end and labour-intensive manufacturing for employment generation is a priority for the Afghan Government to attract investment. AISA is projecting Afghanistan as a potential hub of outsourcing in global system of production and a low-cost destination for FDI in low-end labour intensive manufacturing and manufacture of parts and components. Considering that Afghanistan is importing a whole range of items to cater to domestic demand, a select list of low-end manufacturing industries has been chosen from the list of imported items by the AISA to showcase as potential areas of investment. The list of such industries has been posted on the AISA web site. The list includes tools and tool tips, toilet paper, matches, plastic wares, bicycles, plastic carpets, blankets, yarns (flax, silk wool, polyester, fiber, cotton), footwear (leather and plastic), clothing, tires and tubes, plastic wires, soaps and washing powders.

Box 1.

Sectors/Projects offering investment opportunity for private sector

Energy

1. Turkmenistan, Afghanistan, Pakistan, and India Natural Gas Pipeline – TAPI
2. Sheberghan Natural Gas Project
3. Compressed Natural Gas (CNG) for Automobiles and Generators
4. Afghan-Tajik Basin Tender
5. Central Asia-South Asia Regional Energy Market Project – CASA – 1000
6. Kokcha Hydropower Plant Irrigation Project

Minerals

7. Syadara Iron Ore Deposit
8. Cement Plant Opportunity

Transport

9. Afghan Rail System
10. East-West Road Corridor and upgrade Kabul-Jalalabad-Peshawar Highway to a Four-Lane Expressway
11. Rehabilitation of the Salang Tunnel and Construction of By-Pass Road

Agriculture

12. Fruit Juice and Concentrate Production
13. Saffron Processing and Marketing
14. Farm Machinery Manufacturing
15. Dairy Component Economic Development Package
16. Fresh Fruit Processing – Eastern region
17. Poultry development

Small and medium-sized Industries

18. Moving Up the Value Chain in Carpets
19. Processing Cashmere
20. Processing and Exporting Marble
21. Production of Rolled Steel Products
Cross Sectoral Challenges and Prospects

Several cross-sectoral challenges need to be addressed on priority in order to improve investment climate in Afghanistan.

**Legal and regulatory framework**

The work of establishing legal and regulatory framework to support a free market economy needs to be completed by bringing weak, poorly regulated and unregulated commercial activities within the framework. The judiciary has limited capacity and needs to be strengthened for effective enforcement of rules and regulations. Dispute resolution mechanism is not smooth and corruption creates serious challenge. The Arbitration and Mediation Law (2007) established the foundation for an alternative dispute settlement mechanism. Afghanistan is a party to the International Convention on the Settlement of Investment Disputes between States and Nationals of Other States and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Dispute resolution is also allowed in Afghanistan under the United Nations Commission on International Trade Law (UNCITRAL) rules, or any other mechanism that has been specified under contract by the investors. For Afghan business, commercial arbitration or mediation service is also provided by the Afghanistan Chamber of Commerce and Industries.

Anti-corruption laws exist in Afghanistan making bribing as a criminal act but implementation has been poor. Afghanistan acceded to the United Nations Convention against Corruption (UNCAC). High Office of Oversight for the Implementation of Anti-Corruption Strategy (HOO) has been created by the President to coordinate anti-corruption measures for the Government without any jurisdiction over fines and penalties and remained largely ineffective.

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Pursuant to the commitments made by the Government at the London and Kabul conference in 2010, an Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) had been set up by the Government of Islamic Republic of Afghanistan and the international community to study areas of corruption and recommend measures for improvement. The MEC made an in-depth enquiry into the crisis of Kabul Bank and recommended a set of measures for improvement of governance in the financial sector. Similar investigations by the MEC in other sectors could be of help.

**Reforms in customs and transport facilitation**

Reforms in customs administration need to be strengthened in order to bring about transparency, consistency and improved coordination between the central and the provincial governments. The Single Administrative Document (SAD) for customs was initially introduced in December 2003 in five key provinces and is now implemented nation-wide. At several border crossings, facilities have been upgraded and plans for improvements of several others are underway. Border crossing facilities upgraded in recent years include Torkham Gate in the east, ShirKan Bandar and Hairatan in the north, and Islam Qalah in the west. Large scale reforms are underway to simplify exemption processing and establish standardized fees and streamlined procedures for import and export. The Automated System of Customs Data (ASYCUDA) has been implemented in six locations and is being extended to other locations.\(^{45}\)

In this context, adoption of UNESCAP tools for transport facilitation measures could be potentially beneficial for Afghanistan. One of these is a conceptual model of integrated controls at border crossing. This can be used “as an approach for technical design of information management and workflows at border crossings”.\(^{46}\)

For efficient cross border transport the UNESCAP had released a study that analyzed the solutions available for efficient cross-border transport in terms of improving operations, lowering operating costs and reducing the time spent at the border. Based on this analysis, the study offered suggestions to the private businesses and made recommendations to the public sector on how private business arrangements could be supported. The study provides models for efficient border crossing to develop trade and transport by reducing non-physical barriers. Adoption of this model does not entail replacement of international facilitation agreements.\(^{47}\)

**Establishing Standards**

The Afghan National Standards Authority (ANSA) was established in 2005. The development of a national standards regime is in process. Technical regulation on construction materials has been approved by the Council of Ministers in February 2013 and the technical regulation on

\(^{45}\) Ibid., p.31.


food stuff is under review. Along with the development of essential national standards, the ANSA also seeks to enhance technical infrastructure for testing.48

**Tax regime**

It has been observed that tax regime is cumbersome and tax compliance is low. Large formal companies complain that the more responsible and visible companies share disproportionate corporate burden of taxes.

**Transport infrastructure**

Developing quality transport infrastructure is critical. Afghanistan’s road network is of poor quality and needs upgrading. Currently, shipping of goods through Iran and Pakistan adds another layer to the costs and delays in export-import. Arbitrary road closing creates another problem; highways are frequently closed for security reasons and remain closed for as long as several days. Apart from increasing transportation costs, this creates planning and timely deliveries difficult. Most trucks used in Afghanistan were imported often in poor conditions, maintenance is poor and spare parts are difficult to find and expensive. The trucks often breakdown en route and this causes delay and increase in transportation costs. The goods coming into Afghanistan would need to be offloaded from the trucks or containers at the Afghanistan border and reloaded onto Afghan trucks to be sent to the border to pick up goods. Unloading and reloading at the borders lead to extra costs to the importers for offloading and reloading operations and sending another truck to the border for reloading, delay in the process and damages.49

**Poor overland connectivity**

Poor connectivity, both within the country and with the neighbouring countries is a serious bottleneck for Afghanistan to develop business and to harness the country’s strategic location at the heart of Asia to act as a hub of business and commerce in the larger regional context. Afghanistan’s landlocked status reinforces the criticality of this impediment.

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49 MIGA (2005), p.31.
Box 2. Poor overland connectivity

Land transport in Afghanistan is hampered by difficult terrain and poor road conditions, although the government is making headway in improving them. The “Main Road” in the southern half of Afghanistan and the “Ring Road” in the northern half form the major network of highways through Afghanistan. Repairs are currently underway in several portions and the Main Road is in better condition than that Ring Road. Of all overland transportation, 60 percent is to or from Pakistan, yet the major road between the two countries (Kabul-Jalalabad-Torkham) is in poor condition. An additional 30 percent of land transportation comes through the Iranian border and a combined 10 percent through Afghanistan’s border with the Central Asian Republic to the north.

As Afghanistan is landlocked, it depends on the Pakistani seaports of Karachi and Gwadar and the Iranian ports of Bandar-e Abbas and Chahbahar for its sea transportation. A lot depends on the transit agreements with Islamic Republic of Iran and Pakistan.

There is no network of railroads currently operating throughout Afghanistan, however a system of railroads begin 10km to the south of the border with Uzbekistan in Hayratan and 10km south of the border with Turkmenistan in Turkhandi for transit of goods to and from those two countries by rail.


Seamless overland cargo movement in the region is also restricted by the Afghanistan’s ability to send export consignment to India using land route through Pakistan whereas the import from India into Afghanistan is not allowed via Pakistan’s land-route. Seamless cargo movement through least cost transit route potentially facilitates emergence of efficient cross-border production network, which Afghanistan is not able to take advantage of.

The UNESCAP has proposed an East-West Road Corridor connecting Turkey-Iran (Islamic Republic of)-Pakistan-India-Bangladesh-Myanmar (TIPI-BM) road corridor: Asia’s new Southern Silk Route where Afghanistan can be a potential hub (Figure 4).\textsuperscript{50} Afghanistan can be a part of this corridor by connecting Kabul to Wagah and Attari through Torkham and also from Iranian side. UNESCAP has also proposed extending Istanbul-Teheran-Islamabad container train corridor to Delhi-Kolkota-Dhaka (ITI-DKD) with multimodal links with landlocked countries along the way in Central Asia and South Asia like Afghanistan. This extended corridor can be operationalized using existing physical infrastructure with some institutional framework or transit transport agreements between the countries concerned.\textsuperscript{51} ITI-DKD corridor could become an important artery for countries like Afghanistan giving it access to major markets in South Asia besides to those in Europe.

\textsuperscript{50} UNESCAP South and South-West Asia Office (2012) Regional Cooperation for Inclusive and Sustainable Development, South and South-West Asia Development Report 2012-13. UN Publications and Routledge, New Delhi, pp. 89-91.
\textsuperscript{51} ibid.
The participating member States\textsuperscript{52} of the Fifth Regional Economic Cooperation Conference on Afghanistan (RECCA V), held in Dushanbe, Tajikistan in March 2012, strongly committed themselves towards the goal of development through building infrastructure. Several railway and highway projects were prioritized for implementation along with other projects in the area of energy; human resource development, vocational training, labour market facilitation; investment, trade, transit and border management; and fiber optic connectivity.\textsuperscript{53}

A SAARC regional transit agreement is in dire need since several countries like Bangladesh, Bhutan, Nepal and Afghanistan would benefit from such arrangements.

\textsuperscript{52} Afghanistan, Tajikistan, Pakistan and Iran.

**Access to land**

Property market in Afghanistan is complex and non-transparent. Procedures for leasing or selling vary widely, title disputes are common and recourse to judicial settlement is difficult. Standard and transparent procedures and efficient mechanism for allocation of land to investors are one among the foremost business requirements. In collaboration with the USAID, Afghanistan’s land authority (a part of the Ministry of Agriculture, Irrigation and Livestock) is building up an archive of consolidated electronic records and paper documents on land titles. Legislation on mortgage and secured transactions has been signed by the President in 2009.  

**State capacity in public utility services**

There is a need for improving the capacity of the State to provide basic public utility services like water supply, electricity, waste collection and waste water services. It is reported that the Government is addressing these requirements. There are investment opportunities in these areas where public-private partnership could be encouraged. Expeditious provisioning of these utilities will catalyze business growth and improve investment climate.

**Undeveloped financial market**

Financial markets are still undeveloped for supporting business and commerce. Conventional financial services are available from the international banks and the central bank. However, financial products like commercial loans or export finance need to be developed for domestic investors. Credit to private sector has remained within 4 to 12 percent of the GDP since 2008. Banks are highly centralized with 75 percent of total loans made in Kabul. Only 7.3 percent of Afghans currently hold bank deposits. Money service providers (or hawalas) are extensively used to access finance and transfer money. Although investment funds, leasing, micro-financing and SME-financing companies have entered the market, difficulties are being faced in securing repayment. Deficient legal and regulatory infrastructures that fail to protect property rights and development of collaterals also impede growth of formal banking and institutional credit culture. Firms’ dependence on the informal credit market, family funds and retained earnings for conducting business limits growth of business potential. It is stated that access to credit is found to be one of the largest obstacles to investment in Afghanistan. The legislation for improving banking sector oversight drafted by the Government is awaiting ratification in Parliament. Afghanistan has a small public debt market that allows participation by the commercial banks, money service providers and foreign exchange dealers.

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55 Ibid., p.41.
56 Ibid., p.50.
Skills deficit

Afghanistan faces critical shortage of skilled manpower. This stands on the way of availability of local people to work. There are others whose skills are outdated and require reskilling to work with modern machineries. Widespread illiteracy also hinders people’s participation in development process creating hurdles on the way to develop. One example is that of the initiative on the part of the Government to launch a system of Licensed Customs Brokers by screening through examination. The attempt was frustrated due to high level of illiteracy in the provinces and could not be enforced. The licenses are issued without taking the examination.\textsuperscript{57} Massive effort is called for in expanding education and training throughout the country.

Security issues

Finally, security environment will crucially determine the presence of investors. A lot will depend on the outside perception of security situation in the country.

\textsuperscript{57} Ibid., p.31.
4. Getting started

AISA website offers step by step guidance on ‘Getting Started’ for a potential investor. The first step is to undertake initial desktop research on general issues and on specific market segment. The website provides addresses of various internet sites and names of institutions and publications, which could be accessed by potential investors as useful resource. As the second step, the AISA recommends a business trip, which AISA can facilitate. It is believed that the strong local knowledge and familiarity with key players in business and government are vital for business development in Afghanistan. Combined with other purposes, business trip should also focus on acquiring as much local knowledge as possible along with developing familiarity and contacts. It is advised by the US Commercial Service that personal relationships are extremely important in Afghanistan for building business. Doing an assessment of the investment opportunities has been suggested in the third step. The AISA will help in making an assessment, which will include in-depth information regarding the priority sectors for investment, carrying out a financial feasibility analysis and advice on land-availability including availability of plots in industrial parks. The AISA will also provide support in the fourth step, for obtaining business license and company registration. However, in certain industries and for carrying out export-import business, licenses have to be obtained from other responsible ministries.

Several market studies are downloadable from the AISA website. The AISA website also provides URL of other useful and relevant sites.

Apart from AISA, the Afghan Chamber of Commerce and Industries (ACCI) and its U.S.-based affiliate, the Afghan-American Chamber of Commerce (AACC) and the trade associations like Afghanistan Builders Association (ABA) and those of the other countries like Federation of Indian Chambers of Commerce and Industry, the American Chamber of Commerce in Afghanistan (AmCham Afghanistan) and commercial sections of embassies of different countries are important sources of information and contacts. Most of these agencies are also engaged in business matchmaking activities.

Peace Dividend Trust (PDT), a Canadian non-governmental organization (NGO) maintains a business portal that includes details of 6,500 licensed, screened and verified Afghan owned businesses. Apart from business matchmaking activities PDT distributes tenders by e-mail, SMS

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alerts and official visits, conducts training on procurement processes, provides market information and engage in advocacy in support of Afghan First initiative.\textsuperscript{60}

The Export Promotion Agency of Afghanistan is engaged in promotion of processing, marketing and distribution of a range of commodities. The thrust area includes agricultural goods (especially dried fruits and nuts), carpets, and mined materials (especially marble and gemstones).\textsuperscript{61}

MIGA is working with the AISA and encouraging information in the four key industries, namely Logistics and Transportation, Carpets and Textiles, Food and Beverage Processing and Mining. MIGA also releases studies and brochures on different sectors, investment climate, and potential areas of opportunities including those suitable for entrepreneurs and small companies. MIGA also provides political risk insurance.\textsuperscript{62}

The Procurement Unit of the Afghanistan government, which is a part of the Afghanistan Reconstruction and Development Services, handles government procurement (also of the municipality of Kabul). Information on project related procurement opportunities with the USAID could be found on the website of Afghanistan Infrastructure and Rehabilitation Program. United Nations Development Business is a useful source of information on procurement by the Multilateral Development Banks and other international donors.\textsuperscript{63}


\textsuperscript{63} United States of America, Department of Commerce, International Trade Administration, \textit{Afghanistan: Business opportunities}, available at trade.gov/afghanistan/tg_aftf_003393.asp accessed on 10/11/2013..
5. Concluding remarks

In the foregoing a number of observations have been made regarding Afghanistan’s macroeconomic challenges, prospects and investment opportunities in the near future. Despite the political and economic transition, the Afghan Economy is projected to have relatively robust economic growth of around 5 percent in the medium term. The easing political uncertainty and lower inflation are set to contribute to economic growth in the coming years. The good harvest in the past years and success in agriculture yields should be maintained through pro-active policies that provide incentives for farmers. As the primary source of income for around half of the population, Afghanistan should invest in agricultural sector to expand its yields and the agricultural land base. Stimulating policy instruments would be of great benefit in reducing the poverty level, which has been stagnant at 35 percent of total population. 64

Although capital inflows linked to investments in mining are expected, the decline in aid outweighs these inflows, particularly in the first years after 2014 (mining activities are expected to start in 2016/17). 65 Macroeconomic stability is heavily dependent on abundant aid flows. Targeted intervention by donors and the government in productive economic sectors are needed to support economic adjustment and companies may find it hard to cope with declining demand in transition-affected sectors. ‘Shallow’ financial sector limits the scope of flexible adjustments by the formal private sector. Adjustment will be harder as new pattern of future demand evolves. Construction companies that may have specialized in building roads or providing works for military purposes may not have the required skills for emerging sectors in mining and other infrastructure. Coping with the short term negative impact of the aid decline may require scaling up of workfare skilling programme or training to prepare workers for new demands arising from emerging economic activities.

The two important prescriptions emerge from this diagnosis. Any abrupt aid reduction has to be avoided. Channeling of aid through domestic budget needs to be calibrated with a targeted improvement of absorptive capacity of the Government. The Government should strengthen and step up the reforms programme. The vision and energy of the newly elected government has a large potential in strengthening the business environment through a series of reforms. The business opportunities in Afghanistan are unfolding and will open up further. It is for the stakeholders to accelerate the process.

64 UNESCAP, Economic and Social Survey of Asia and the Pacific 2015, Making Growth more Inclusive for Sustainable Development, 2015, p.73
With its strategic location as a land bridge between South Asia and Central Asia and its vast untapped endowments of natural resources, Afghanistan represents an important investment opportunity for global and regional investors.

Doing Business in Afghanistan presents an overview of the business environment available for foreign investors in Afghanistan and identifies the types of sectors and products that have a potential for growth.

Prepared by UNESCAP to serve as a background for the discussions at the Sixth RECCA: The Silk Road through Afghanistan, as a part of its work to support the country through regional cooperation, Doing Business in Afghanistan is designed to help stimulate discussions on the productive potential of Afghanistan and attract investors to this land of opportunity.

United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) is the regional development arm of the United Nations and serves as the main economic and social development centre for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 member and 9 associate members. ESCAP provides the strategic link between global and country-level programmes and issues. It supports Governments of countries in the region in consolidating regional positions and advocates regional approaches to meeting the region’s unique socio-economic challenges in a globalizing world. The ESCAP is headquartered in Bangkok, Thailand with subregional offices located in Suva, Fiji; Incheon Republic of Korea, New Delhi India and Almaty, Kazakhstan. The South and South-West Asia Office based in New Delhi serves eight South Asian countries including Afghanistan and Islamic Republic of Iran and Turkey.

Opened in December 2011, the South and South-West Asia Office of UNESCAP based in New Delhi has been promoting regional cooperation and transport connectivity for inclusive and sustainable development of Southern Asian countries through its analytical work, policy advocacy, technical assistance and capacity building activities. Please visit the ESCAP website at [www.unescap.org](http://www.unescap.org) for further information.