AGENCY FOR INTERNATIONAL DEVELOPMENT

For Library

REVIEW AND DOCUMENTATION
of the
PRIVATE ENTERPRISE PROGRAM IN AFGHANISTAN, 1964-74
(AID Projects 087 and 116)

by

Cornelius H. Zondag
Private Enterprise Officer
USAID/Afghanistan

June 30, 1974

AGENCY FOR INTERNATIONAL DEVELOPMENT

REVIEW AND DOCUMENTATION

of the

PRIVATE ENTERPRISE PROGRAM IN AFGHANISTAN, 1964-74
(AID Projects 087 and 116)

by

Cornelius H. Zondag
Private Enterprise Officer
USAID/Afghanistan

Kabul, Afghanistan
June 30, 1974

CONTENTS

APPENDIX

SUMMARY REVIEW

1. USAID experience in Afghanistan would seem to indicate that private industrial development projects, especially if directed towards the development of the agribusiness or export sector, can make a significant contribution to economic and social development as well as to achieving an increase and better distribution of urban and rural income. Afghanistan provides a dramatic test case for this point of view because intermittently a private industry and public sector industry approach was tried to accelerate economic development, the latter generally with disastrous results, which in a negative way would seem to confirm the merits of the former, (Section I).

2. Section II of the "Review" discusses briefly the more general sector problems in bringing about economic and industrial development in a tribal society. Quite often such a society tends to be extraordinarily resistant and indeed hostile to the unifying political discipline required for nation building. Thus, insidious opposition by certain segments of the Establishment or leftist groups are to be reckoned with as potential problems in developing projects of this type, since such projects tend to have a delayed socio-political impact.

3. The project's broader objectives are stated in Section III. Initially they were defined as developing agribusiness industry for export as well as to increase commodities for local consumption in order to save foreign exchange. Subsequently, these objectives were broadened to include certain social aspects which occur in the process of modernization. More narrowly defined, the project remained centered on making an impact on increasing rural and urban income through the development of agribusinesses, using domestic raw materials for export, combined with an element of soundly conceived import substitution.

4. The Project was carried out in two different stages or phases, with the help of two different contractors. Phase One, stressing the promotional aspects such as the development of a proper investment climate for the creation of new industries, ran from 1964-1970. Phase Two, involving largely a change of emphasis so as to put more stress on institution building and the development of industrial policy, continued from 1971-1974, (Section IV).

5. Section V describes the project's history during its entire period. It discusses the major developments during the first phase, namely (1) the fact that the government became disenchanted with the excessive drain of the newly created public sector industries on the national budget which resulted in a shift towards the private sector through the promulgation of the 1967 Foreign and Domestic Private Investment Law; (2) how the initial project emphasis was changed from the preparation of feasibility studies to the creation of a more attractive investment climate initially aimed at attracting the domestic investor with the expectation—which was fulfilled—that once the domestic investor was happy the foreign investors would follow. and (3) what was done in the area of institutional development in support of the newly created private industrial establishments.

Two sub-projects during Phase One, were more directly concerned with the strengthening of Afghanistan's foreign exchange earnings through the improvement of the Afghan karakul fur industry and the promotion of tourism. Particularly in the case of the karakul fur industry, the methodology followed is interesting since partly as a result of some organizational and policy changes, including the establishment of an independent, co-operative Afghan Karakul Institute, income from karakul pelts increased from about $9 million in 1967/68 to some $17 million in 1972.

Significantly, through the cooperative approach, part of these increased foreign exchange earnings were translated into much higher prices to the karakul producers at the grass roots level. Likewise , an impact—admittedly minor—was made in the promotion of tourism in Afghanistan which subsequently developed from an almost zero base into a $10 million a year industry.

The discussion of Phase One ends with a brief reference to the problems, mostly of an administrative and political nature, in carrying out the project, as well as with an explanation of how the project was able to generate multilateral support through acting as a catalyst or limited supporter for bigger ventures to be financed by other donors.

Phase Two of the Project centers around the project's subsequently changed emphasis in the direction of industrial policy formulation. the development of industrial extension services and further institutional development in support of the newly created private industries. Three institutions originally established in Phase One, the Investment Committee, the Secretariat and the Investment Advisory Center, were strenghthened, although the latter two were subsequently merged into the Investment Promotion and Development Department of the Ministry. Two new institutions, the Industrial Development Bank and the Afghan Association of Private Industries, were established.

Efforts to encourage the development of industrial policy took several forms, such as extensive research in developing a proposed new tariff and an agribusiness emphasis, the preparation of drafts for the modified investment law and detailed implementing regulations, proposals for research and policy making units within the Ministry, and contributions to various five year and annual plans stressing industrial policy.

After a brief discussion of the project's limited involvement in Afghanistan's mineral and petroleum sector, the historical review ends with a discussion of some significant problems during the Second Phase which resulted largely from a tendency on the part of the government to place renewed emphasis on guidance and control of the private industrial sector. In this connection, it also discusses the changes made—both favorable and unfavorable—by the new 1974 Foreign and Domestic Private Investment Law which was promulgated after the fall of the Monarchy and the establishment of the Republic of Afghanistan.

6. Section VI refers to the project's achievements as evidenced by the creation of about one hundred new private industries involving a total investment of about $15 million equivalent as well as the creation of some seven thousand new industrial jobs, all supported by the institutional development as mentioned under (5) above.

About thirty percent of these industries are export oriented while some twenty were started with the help of foreign investment, either one hundred percent or in conjunction with Afghan investors.

7. Some of the socio-political benefits derived from the project are discussed briefly in Section VII, mainly in terms of the changes brought about in a traditional society on the eve of modernization.

8. The "Review" (Section VIII) tries to provide some insight into the make-up of the Afghan investors, what type of men they were and what motivated them to invest in industry. By and large, the investors were either bazaar merchants or their sons who had finished the university, most of them with a good sense of markets but with limited managerial capability. Although they obviously were interested in making money, pecuniary motives were not the only ones to make them act.

9. Section IX addresses some recent criticism of the program by an American Professor in "monetarist" terms, implying that the promotional aspects embodied in the Investment Law could be counter-productive in the long run because of increased imports or higher domestic prices. It appears, however, that such comments were based on erroneous observations, and perhaps too much of a textbook approach.

10. In discussing results, it is necessary to relate what was achieved not only to project inputs, but also to "causality" i.e., to what extent the technical assistance provided made a difference of significant proportion. Section X addresses this subject matter, as it relates the various contributions from AID, other bilateral or multilateral donors and the government of Afghanistan to ultimate success.

The final sections (XI and XII) describe some of the internal administrative difficulties in carrying out the Project as well as how and why it was ended, followed by a conclusion (XIII)--in cost/benefit terms--that both on its own merits as well as on the basis of a comparison with other aid efforts in Afghanistan, the project was quite effective in pursuing the established goals and objectives.

Notes:

1. Exchange rates: At this writing the exchange rate for the Afghani is Afs. 59.00 to one U. S. dollar. During the period of the Review, the exchange rate has fluctuated between 51 and 85 Afghanis per dollar.

2. The Afghan calendar year runs from March 21 to March 20.

3. The Afghan calendar starts with the move of Mohammad from Mecca to Medina, so the current Afghan year is 1353.

1

A REVIEW AND DOCUMENTATION of the PRIVATE ENTERPRISE PROGRAM IN AFGHANISTAN, 1964-74

I. INTRODUCTION

The purpose of this report is twofold. First, it constitutes an attempt to document the history and results of a private enterprise program which operated in Afghanistan from 1964-1974 and which was considered to be very successful. Second, it supports the view that in a very under-developed setting, the private sector can make more of a contribution to economic development than we often believe to be possible.

While the latter statement may sound redundant to some, as may be noted from the contents of this report, its truth is not always reflected in the actions and convictions of policy makers and economic development planners. Even if they accept the idea intellectually, they often seem to reject it almost subconsciously because of their normal inclination to visualize foreign aid mostly in terms of government to government programs.

The problem is compounded further by the fact that the concept of "private enterprise", while officially supported in statements by a great many prominent policy makers in the United States and other developed countries, tends to have relatively few backers within the foreign aid bureaucracies of the various doner nations. Contrary to "agriculture", "education", or similar well accepted aid activities, "private enterprise" tends to be treated as an orphan in a bureaucratic sense because in the traditional foreign aid programs which are usually administered on a government to government basis, there is almost no place to fit it in. Obviously, OPIC is not the answer for what we have in mind here.

Furthermore, since most efforts to help the private sector depend on the cooperation with private individuals rather than with government agencies, such programs cannot be as tightly controlled as for instance a project to improve a university where the hard nosed aspects of profit or loss do not enter into the picture. As a result, it is often felt that private enterprise programs carry a larger potential risk of criticism in case of failure which again tends to reduce their appeal at the working level to those engaged in administering foreign aid programs. Yet, the rewards to be derived from industrial development programs can be very considerable as demonstrated in a number of countries in the past, particularly in the Far East.

One of the biggest challenges facing the developing world in the decades ahead is industrialization. Increases in population, food production and mobility are going to create immense needs for jobs, improved income distribution and regional balance which require that a good deal more attention be paid to finding a proper way of industrialization. In spite of a growing emphasis on the development of public sector industry as a means to achieve specific, narrowly defined goals, experience has shown that the burden of successful industrialization in the developing world tends to fall largely on the private sector which, apart from the enactment of favorable policies for its further growth, often requires additional support in the form of incentives, credit and advisory services.

As the recent report of the National Academy of Sciences/National Academy of Engineering points out:

> "Industrialization holds the prospect of increases in world income, employment, and trade which will benefit industrial as well as industrializing countries. Applied scientific research in agriculture has diminished (though not removed) the threat of famine for the two-fifths of the world's people who live at subsistence levels, providing a critical impetus to progress, worldwide. The Green Revolution is raising rural incomes and creating expanded

> markets for local and imported manufactures. But, it cannot in itself overcome the lack of productive jobs or raise wages to acceptable levels."[1]

The case of Afghanistan is interesting in this respect because over a period of some fifty years, both approaches, involving development through the public as well as the private industrial sectors were tried, rejected and tried again. Here we have a country which in the 1930's decided to pull itself up by its own bootstraps through policies favoring the private industrial sector for the simple reason that its Treasury was empty at a time when foreign aid had not as yet become fashionable. The success of this effort was almost entirely due to the drive and vision of the country's top political leaders as well as the remarkable foresight of a few unusual entrepreneurs who were able to mobilize domestic resources at a time when most nations in a similar stage of development were almost entirely subjected to colonial regimes. Another interesting aspect is that because of Afghanistan's closeness to the Soviet Union, these people had also become aware at an early date of the merits and drawbacks of economic planning. This in turn tended to influence their policies vis-a-vis the private sector in such a way as to find a compromise between the desires of the individual entrepreneur and the requirements of a developing nation. The outcome of this effort is described in Annex A. We believe it is well worth reading!

Some twenty years later, we find an almost total departure from this concept through the country's reliance on massive inputs of foreign aid. Such aid became possible largely because of the fact that during the cold war, Afghanistan's geographic location made it politically important to its two major donor nations, the United States and Russia. Afghanistan benefitted through a massive development of its infrastructure but at a price. While its original development phase had been carried out almost entirely "out of profits" with each new step being financed out of income created during the previous one, this next development phase placed considerable emphasis on comprehensive economic planning and the "guided economy" concept. Following this change in policy, the plans stressed the improvement of the country's infrastructure, supported by massive

---

1. National Academy of Sciences/National Academy of Engineering. Meeting the Challenge of Industrialization, A Feasibility Study for an International Industrialization Institute. Washington, D. C., 1973, p. 3.

inputs of aid from abroad. Ultimately, this resulted in a vast increase in the country's external debt, coupled with a minimum of political and human resources development or what we generally can lump together under the label "nation building". While one cannot and would not deny the merits of Afghanistan's effort to develop its infrastructure during its 1953-63 "break with the past", it is also true that this constituted largely a one sided effort in development for but not by the Afghans. Human motivation was conspicuously absent; compulsion was the word and a potential storehouse of private sector talent which could have complemented the development of the public sector and broadened the country's revenue base as a means for self-generating economic growth, was shunted aside into almost complete frustration or despair.

In essence, the development effort at that time consisted of heavy reliance on foreign technical assistance to draw up Five Year Plans including numerous projects, using the plans as a means to obtain a vast amount of foreign aid and writing a check to foreign contractors to do the job. Except for the unavoidable and substantial "slippage" in this type of operation, the results can easily be seen since brick and mortar tends to last more than a lifetime. The failure of a number of big public sector industries—largely because of deficient planning and the lack of competent managers to run them—which gradually became more and more of a drain on the budget is likewise clearly visible.

As a result, some ten years later, we note a gradual realization that much of this aid had been wasteful. This in turn led to a re-emphasis of policies favoring the private industrial sector and it almost provides a negative confirmation of the merits of the private sector approach, as discussed in this report.

Learning the hard way the nation discovered a few truths which have been summarized so well by Theodore Geiger[1] as follows: (a) by relying more on private initiative, a nation can mobilize indigenous resources of money, skills and human energy that would not otherwise be available to it; (b) in developing their own industry, individuals tend to save more and work harder than they would for other purposes, in particular public sector employment; (c) in the initial stages of economic

---

1. Geiger, Theodore. <u>Private Enterprise and Development</u>, in "Dialogue, Vol. 4, 1971, No. 4, pp. 16-27.

development, the private sector tends to reduce waste and inefficiency which the developing countries can ill afford. Particularly the allocation of resources within the particular industry has to be more judicious while the lack of managerial constraints tends to capitalize on the opportunities for diversification and innovation that arise in the process of economic growth; (d) a successful private sector tends to provide more productive employment than the public sector normally can. For instance, in India's small industries, management overhead is considerably smaller than if some of these industries were combined into larger units, partly because the individual entrepreneurs are satisfied with a relatively small return for their effort.

To sum it up, what Afghan officials perhaps grudgingly learned, is that in the early stages of economic development, the selfish interest of the entrepreneur often tends to coincide quite well with the attainment of national economic objectives in a true Ayn Rand fashion.[1]

Finally, after some six years of remarkable progress in the development of the private industrial sector, there was again a reaction in the form of increasing concern about "controls", "guidelines" and the promotion of public sector industry, which again affected the policies governing private sector development adversely. Thus, it would seem that the development of a private industrial sector in Afghanistan presents an interesting, almost unique, case study illustrating the position taken in our first paragraph.

II. THE OVERALL SECTOR PROBLEM

In a sense, the problem of economic and industrial development in Afghanistan is best stated in terms of the experience of King Amanullah who lost his throne by trying to do too much too fast in what remains essentially a tribal society. As Poullada points out, "the first and perhaps most obvious lesson to be learned from the Amanullah experience is that a tribal society tends to be extraordinarily resistant, and indeed hostile, to the unifying political discipline required for nation building".[2] Thus, what aid donors conceive as "logical" and are willing to pay for in order to eliminate gradually

---

1. Ayn Rand. The Virtue of Selfishness, New York, New American Library of World Literature Inc. 1964, passim.

2. Poullada, Leon B. Reform and Rebellion in Afghanistan 1919—1929, King Amanullah's Failure to Modernize a Tribal Society. Ithaca and London, Cornell University Press, 1973, p. 267.

the country's dubious distinction of belonging to the "Club of the Twenty-Five Least Developed Countries," may well become obscured in a good deal of lip service, if not passive resistance if the need for it is not felt on a fairly broad basis.

For instance, as Dupree points out, "villagers willingly accept any all suggestions for technological change because they realize that the sooner they accept, the sooner the 'developers' will leave."[1] This unfortunate tendency is further aggravated by the fact that many dynamic foreign advisers, in their enthusiasm to get something done, have tended to "sell" programs to the Afghans which they actually believed would be effective but which were not conceived by the recipient as meeting an urgent need. As a result, the particular program started off on the wrong premise with the Afghans politely taking to the sidelines, rather than openly criticizing a project which frequently was offered to them without much of a commitment on their part.

Another problem, more specifically related to private industrial development, was that in Afghanistan, except for the merchants in the bazaar, there was no private enterprise tradition. As a matter of fact, except for its above mentioned change of heart forced by necessity, it can be said that in practice the government's day-to-day attitude often works out to be anti-business, particularly at the lower levels of administration. While risk taking, budding industrialists showed up in unprecedented numbers after the promulgation of the 1967 Foreign and Domestic Private Investment Law, there were at the same time many jealous lower echelon bureaucrats ready to deny them the rewards. Furthermore, industrial organizations, manufacturers' associations and labor unions were frowned upon as a potential counterbalance to almost unlimited government power.

Particularly during the first phase of the program, the traditional establishment, whose power was largely based on a military and feudal society, was often less than pleased to see "nobodies" rise up in industry, particularly if these nobodies turned out to be members of minority groups. Apart from that, there was ideological opposition from those who were committed to socialism or communism as well as from religious leaders who felt threatened by any departure from the existing traditional society.

---

1. Dupree, Louis. Afghanistan. Princeton, N. J., Princeton University Press, 1973, p. 249.

Thus, it would seem that the first requirement of a successful development project in Afghanistan is that the local leaders perceive it as not encroaching on their particular power structure regardless of whether or not the project is in the national interest of political integration or merely resulting in domination by the central government. As pointed out above, the Private Enterprise Program faced some of these problems in that at times the program was felt as a threat by a minority of ultra conservative elements of the ruling oligarchy. The fact that they were easily overruled does not detract from the other fact that this resulted in some sort of insidious sabotage and protracted problems in the day-to-day execution of the program which called for unusual tact and perception on the part of the foreign advisers.

The easiest phases of the program were obviously the promotion of karakul fur exports which benefitted everybody, and tourism, although in the latter case ultra conservative elements often felt a threat to "their culture" because of the roaming around of too many tourists; the more difficult part was the development of a private industrial sector which, apart from affecting the traditional society, ultimately could result in a shift in income distribution and political power.

III. PROJECT OBJECTIVES

In the RFP[1] for Afghanistan, dated October 1963, the Project was first proposed to "assist the Royal Government of Afghanistan through private enterprise to develop new industries for processing of agricultural products so that they are acceptable to move in the hard currency export trade and to increase production of commodities for local consumption in order to effect savings in foreign exchange." Subsequent CAPs[1] of October 1964 and 1965 held to essentially the same rationale in defining the purpose for this Project.[2]

As time went by, these objectives became more broadly defined so that in the latter stages of the Project, the objectives were stated as follows: (a) to increase per capita income through the proper motivation and mobilization of the private industrial sector; (b) to help a group of private entrepreneurs become a driving force in modernizing the economy which in turn could lead ultimately to the creation of a more democratically

---

1. RFP abbreviated for Request for Proposals, CAP for Country Assistance Program.

2. See: Thomas H. Miner and Associates Inc. Afghanistan, Private Enterprise Program. Chicago, Ill. 1970, (mimeographed), p. II-1.

oriented society, and (c) to increase the belief that economic and social advancement can be obtained through individual competence and effort rather than through preference based on influence, kinship, caste, social status or race.[1]

More narrowly defined the industries so created were to have a significant impact on rural income through the development of agribusinesses using domestic raw materials for export; simultaneously, there was an element of import substitution to be pursued in those cases where local industry would be able to compete with the imported product strictly on a cost and productivity basis. Equally important were the income distribution effects and the creation of an industrial labor force which in time would become more vocal in demanding those social changes without which real development cannot start. Obviously, in a country where labor is plentiful and capital is scarce, a conscious effort was made to use labor intensive technology to the extent possible.

IV. PROJECT PHASING

The Project was carried out in two different phases or stages. Phase one (1964-70) was carried out under contract with Thomas H. Miner and Associates of Chicago which sent in a three-man team of high caliber generalists supplemented by specialists covering several sub-projects. During the first phase, the emphasis was on strengthening Afghanistan's balance of payments and developing a favorable investment climate in order to create as many new industries as possible with a general emphasis on agribusiness, export promotion and sensible import substitution.

The second phase (1970-73) was carried out under contract with Checchi and Company of Washington, D. C. During this phase, emphasis was placed increasingly on institutional development in support of the new industries as well as on the development of industrial policies designed to bring about self-generating growth.

The project's broad goals during the second phase, as stated in the PROP and the RFP were as follows:

Goal I. To further improve the investment climate and to increase reliance on indirect rather than direct controls.

---

1. See: USAID Non-Capital Project Paper (PROP) dated August 11, 1970.

Goal II. To provide more technical support for existing small private industry through the provision of consulting services in the area of industrial extension.

Goal III. To help create better overall support facilities for private enterprise by acting as a catalyst or limited supporter in the creation of new sources of industrial and commercial credit, the enactment of better commercial legislation and in general, all those vital elements which normally operate in support of the private industrial sector but which are totally lacking in Afghanistan.

Goal IV. To provide the insights and information needed to guide the government in the development and implementation of industrial policy (Research) and to strengthen the indigenous private sector by providing a limited amount of training for people from local firms and institutions.

V. HISTORICAL REVIEW OF THE PRIVATE ENTERPRISE PROJECT

A. Phase One

1. The Major Project Components

a. Industrial Development

As pointed out, the mid 1960 change in government policy towards the private sector resulted from a combination of political developments and a growing disenchantment with the performance of government subsidized public sector industry. A subsequent consideration on the part of the government was the need to create more industrial jobs for a growing number of educated unemployed after it had decided to make a major effort in the area of university education.

A modest "Private Enterprise Program" was started in 1964 which originally was aimed at attracting the foreign investor through the preparation of a number of feasibility studies. After a considerable analytical effort, eight fields were selected for pre-investment feasibility studies. These fields included animal casings, sheepskins, cigarette manufacturing, corrugated boxes, spice and herb processing, carpet manufacturing, karakul processing, and tourism. Upon completion and approval by the government, each feasibility study was given a relatively wide promotion effort among potential American, European, and Japanese private investors as well as lending institutions.

By and large, this approach was unsuccessful. Therefore, in 1966 the direction of the program was changed radically. The new approach looked to the creation of a proper investment climate as a first requirement. Although such a climate would primarily attract indigenous investors rather than foreigners, it was assumed that if an attractive investment climate could be created and if the domestic investor would successfully move ahead, the foreign investor was likely to take note and follow. This assumption proved to be essentially correct.

Thus, during the first phase, the primary program goal was to get new private industries started. The goal sounds simple but in reality it was quite complicated. As a first requirement, it was necessary to create a proper legal base of operations which is so important in creating an investment climate. Once this was done, a handholding job was needed to guide the individual investor on how to avail himself of the benefits provided under the law. Because of the lack of an industrial history, the advisers had to work from scratch with each individual investor to get his project started, most of whom had more money than ideas. The case of the first investor as discussed in Annex B provides a good example of the type of problems which had to be faced.

As part of the promotional effort, there was a need to create a rudimentary institutional base in support of the new industries. Thus, it became important to institutionalize the advisory services needed to get the investor started. Once this was done, an effort had to be made to find an adequate physical location for the new industries which initially sprung up in the midst of the residential area.

Obviously, this was a Herculean task for a small advisory team consisting of only three generalist senior advisors of Thomas H. Miner and Associates, in cooperation with four more advisers, provided by the Asia Foundation and Western European countries, who were either specialists in a certain industry such as food processing, or tanning, or industrial economists working at the junior level.

The first and formidable problem at the initiation of the first phase was that the lack of any tradition in creating a new private industrial sector. What little tradition was left from the 1930's was tainted—rightly or wrongly—by a connotation of "monopoly" or "exploitation". Many people doubted seriously that an entrepreneurial class could be developed in Afghanistan. Since during the period immediately preceding, most of the capital to establish new industries had been provided by the government, it was assumed that little or no savings would be available for industrial investment.

Even the idea that businessmen would be able to engage in industrial activities not guided by the government was repugnant to many Afghans. Students in their second year at the University would timidly ask what was meant by the words private or public industrial sector while other intellectuals believed that the "warrier traditions" of the Afghans made them totally unfit to engage in this type of activity.[1]

The matter of finding an administrative "home" for the newly emerging private industrial sector immediately became a problem. The seemingly "obvious" solution of locating the Program in the Ministry of Mines and Industries which had administered another "Private Investment Law" prior to 1967 was out of the question at that time since this Ministry was considered as the stronghold of the "guided economy" concept. Hence, no potential investor was likely to go near it. As the contractor pointed out in his final report:

> "In the case of the Ministry of Mines & Industry, the home of the 'guided economy' concept, the principal problem was that of guiding to such an extent that the project soon became a Government proposal being implemented with the investor's money. The Ministry of Mines and Industries regularly dictated capital requirements, machinery requirements, source of machinery, method of payment, type and quantity of production and any other detail which caught their fancy. Under these circumstances, only the hardiest investors

---

1. See: Thomas H. Miner and Associates, Inc. Afghanistan, Private Enterprise Program, Chicago, 1970, (mimeographed), p. III-1.

> persevered. This happened to a very large rayon weaving plant which was approved over four years ago and which only now is actually being implemented under the more relaxed atmosphere engendered by the Investment Program."[1]

Fortunately the alternative existed of having the program sponsored by the Ministry of Commerce which at the time was headed by Dr. Nour Ali who was a strong believer in the role of the private sector. Surrounded by a few other individuals who harbored the same philosophy, Dr. Nour Ali was able to lay down the fundamentals upon which a program could be built. Some of these concepts were completely revolutionary by Afghan standards, such as:

—It is the investor's money. He can spend it on manufacturing any item he likes, providing that he can prove reasonable feasibility.[2] The corollary to this is that industrial investors are probably as smart as anybody else, at least, and stand in need of relatively little "guidance" by bureaucrats.

—The government is uninterested in where a man's capital comes from, or in what form, as long as it comes.

—The selection of partners is the investor's problem—whether he is foreign or Afghan. There are no imposed partners, nor quotas, nor "Afghan percentages".

—The purchase and selection of machinery, including second hand equipment if desired, is entirely up to the investor himself without any interference by bureaucrats who will not be responsible for the operation of the plant.

—The application basically consists of a feasibility study comprising all relevant information and projections for five years. This study, when approved, is the "license" as far as capital, imports, foreign personnel, etc. are concerned.

---

1. Miner. op. cit. p. III-2.

2. In practice, because of conditions in Afghanistan, this constituted a certain bias in favor of agribusiness oriented projects.

—The project is considered by the government on the basis of the Application—Feasibility Study without further negotiation or "agreements".

—The letter of the 1967 Investment Law shall be the only guide and rule. An excess of zeal to foresee and prevent any possible abuse of Investment Law privileges is not to be used as an excuse for bureaucratic harassment and interference in industry.[1]

Thus, the basic elements of the first stage of the program were the enactment of the 1967 Foreign and Domestic Private Investment Law and the creation of the related institutions established to help implement the Law and to support the investors. All these are discussed in the sub-sections which follow.

(1) The Foreign and Domestic Private Investment Law

The legal base for the redirected private investment program which started in 1966, was the promulgation of a Foreign and Domestic Private Investment Law, early in 1967.[2] In addition to providing the usual incentives to the private investor, such as duty-free import privileges for equipment and raw materials, a five-year tax holiday, etc., this law established an Investment Committee composed of the Ministers of Commerce, Finance, Planning, Agriculture, and Mines and Industries. Approval of a proposed investment by this Committee, chaired by the Minister of Commerce, meant personal endorsement by five Ministers, and hence, relatively ready cooperation in implementing decisions by five Ministries. Also, this arrangement provided the new investor with a direct recourse to higher authority in case his efforts were met with opposition from officials of the various key Ministries with which he would have to deal at one time or another.

What was important about the 1967 Private Investment Law was not so much its coming into effect—two private investment laws were on the books prior to 1967, namely, the Law Encouraging Industries under the Ministry of Mines and Industries, and the Foreign Investment Law

---

1. Miner. op. cit. p. III-7 – 8.

2. For a complete text of the Law, see Annex C of the Appendix.

under the Ministry of Commerce—as the fact that it represented a change from investor control to investor support.[1]

Through the establishment of the Investment Committee, the 1967 Private Investment Law tried to provide actual support to potential investors and to eliminate many of the previous administrative difficulties. Since the previous investment laws were administered by two different Ministries, it was quite possible for one Ministry to block a project approved by another. These laws required private investors to negotiate what in effeot were highly specialized agreements with the government which governed all phases of their proposed operations. The stipulations embodied in these agreements included the form and amount of capitalization, type, price and suppliers of capital inputs, quality, and origin of raw materials, and the nature and amount of any technical assistance. The actual implementation of these agreements was often disastrous to the investor.

The 1967 Law, which was modified in 1974, changed all that.[2] The key elements of the 1967 Foreign and Domestic Private Investment Law—apart from those mentioned above—consisted roughly of expanded fiscal benefits and guarantees on repatriation of profits and salaries to provide increased incentives for private investments, equal treatment for new investments, foreign and domestic, and greatly improved, clarified, and centralized procedures for the administration of the law and for the settlement of disputes.

The law provided benefits for approved new private investments, Afghan or foreign, in industry, mining, agriculture, tourism, or in any other service industry or priority enterprise designated by the Investment Committee (Article 2). It specifically provided that although all mineral deposits are owned by the State, the conclusion of individual agreements in the field of mineral exploitation or basic industry remained possible (Article 26).

---

1. For a review of the earlier investment laws, see: Nyberg, Howard. The Investment Climate of Afghanistan, An Analysis of Private Investment Laws and their Application, Kabul January 1966, (mimeographed).

2. Afghanistan, Ministry of Commerce. Foreign and Domestic Private Investment Law, Kabul, March 1967.

In more specific terms, the law provided for the following benefits:

—Exemption from taxes on company income for five years beginning with the date of first sale of products of the new investment (Article 3).

—Exemption from import duties on essential imports (machinery, raw and intermediate materials) for five years after the approval of the investment (Article 3).

—Tax exemption for interest on foreign loans which constituted part of an approved investment (Article 3).

—Exemption from export duties for ten years after approval of the investment (Article 3). Except in the above cases, foreign companies and their employees were subject to the normal tax laws. The law stated that investments under this law were subject to an independent annual audit by auditors who meet international standards (Articles 10, 11).

—Repatriation of profits, capital, interest, salaries, royalties and approved fees was guaranteed within reasonable limitations and rules (Article 5, 6 and 9).

--Shareholders could freely dispose of shares, except that they were not allowed to sell to foreign governments. There was a saving clause on this latter limitation to allow for subrogation under foreign governmental investment guarantees (Article 12).

—Joint ventures were explicitly encouraged, but the law did not require any specific percentage of domestic participation (Article 15). One hundred percent foreign-owned investments were not precluded. However, the law empowered the Investment Committee to negotiate sellback arrangements, among other things (Article 14).

The law required all government agencies and departments of the government to purchase their necessary supplies and services from enterprises established under this law, provided that these products were "substantialy" competitive with imports (Article 16).

The law included nothing more specific than the foregoing provisions with regard to protective trade measures available as incentives to investments. These, of course, were in no way precluded by the law, and protection of domestic industry subsequently became an established policy of the Government of Afghanistan, although not actually implemented because of the continuation of a defective tariff. Furthermore, the problem of policing Afghanistan's vast land frontiers is so great that there are limitations upon the government's ability to enforce protection through trade barriers and high import duties.

According to Article 17, rights of investors in the event of expropriation were re-affirmed by reference to Article 29 of the Afghan Constitution, which read, in part, as follows:

> "Property is inviolable.
>
> No one's property can be confiscated except in accordance with the provisions of the law and the decision of a competent court.
>
> Expropriation is allowed only for securing public interest, against an advance equitable compensation, in accordance with the provision of the law."

The law made suitable provision for arbitration procedure, as well as for settlement according to the Convention of the Settlement of Investment Disputes between States and Nationals of other States, if the government and the foreign investor so agreed. Such an agreement could be reached either at the time of investment or when a dispute arose, as provided in the Convention. Afghanistan signed this Convention in September, 1966 (Article 19).

The "single license" provision (Article 24) established that an investment finally approved by the Investment Committee would require no other license to operate in Afghanistan once such a license was obtained. The law provided, furthermore, that the controversial "Licensing Regulations for Private Foreign Traders and Firms in Afghanistan" would not apply to investments approved under the new law (Article 25).

It remained government policy, nevertheless, to draw sharp distinctions between "foreign investors" and "foreign traders", and to attempt to separate the two types of activity as well as the rules applicable to them. Understandably, the law restricted enterprises approved for benefits under the Investment Law from exporting goods which they did not produce, or from importing goods other than those necessary for their own production or use (Article 24).

(2) Supporting Institutions

The Private Investment Law, valuable as it was, would not have been able to attract or promote new investment without supporting institutions. Indeed, as noted above, the law itself provided for an Investment Committee and a "Secretary". However, it did not provide for a "Secretariat". To deal with the implementation problem, the first Chairman of the Investment Committee first tried to set up an "Advisory Sub-Committee" consisting of representatives of the Ministries of Mines and Industries, Planning and Commerce, together with the foreign advisors. The Sub-Committee was charged with project analysis, final recommendation for approval and the creation of procedures. It met only once but just long enough for the representative from the Ministry of Mines and Industries to make it clear that this Ministry would have nothing further to do with it. Taking another tack, the Chairman then established the "Investment Committee Secretariat" located in the Ministry of Commerce. Since most of the original investors emerged from the bazaar and since the Ministry of Commerce was already functioning as the "Registrar of Companies in Afghanistan" and was handling the issuance of trade licenses, the potential investors, mostly bazaar merchants, felt more at home in dealing with "their Ministry". With this, a rudimentary institutional base for the program was established.

As originally conceived, the principal function of the Secretariat was to make sure that new investment applications met the criteria established under the 1967 Private Investment Law, and to administer the law for approved applicants. This latter activity consisted mainly of processing invoices for duty-free importation of machinery, spare parts and raw materials, and handling administrative problems in connection with the export of finished goods.

Here a new problem emerged in that the Afghan officials in the Ministry of Commerce had no precedent in dealing with investors. But fortunately, a few of them had the right "non-dirigiste" philosophy so that over a period of time proper procedures could be worked out with the investors themselves. As the contractor puts it:

> "Not surprisingly, once an investor (foreign or Afghan) is really sure that the Investment Committee means what it says, after two or three of his questions have been answered with the statement "however you want to do it" or "as you wish" or "that's your decision, not ours," then both the Secretary and the advisors are normally overwhelmed by pleas for help and guidance, together with assurances that their every suggestion will be followed to the letter. In short, once the investor is sure that nobody is trying to force anything on him, he then becomes voluntarily receptive to suggestions and even 'guidance'."[1]

The second institution established in support of the program was the Investment Advisory Center (IAC) established in March 1969. Funded by the Chamber of Commerce, for several years technical assistance was provided to it by advisors from the United States, the Federal Republic of West Germany, Great Britain, France, and UNIDO. Its functions included the preparation of investment applications for consideration by the Investment Committee, in cooperation with the investors, performing market studies and other analytical work for the Committee, the statistical reporting on the program and a variety of industrial extension activities which were becoming increasingly important as the number of new industries increased. In contrast to the Investment Committee, the Center remained investor oriented i.e., primarily concerned with helping the investor.

From the beginning, the experience with the Center was somewhat mixed and for a while it existed in name only. It was felt that to gain confidence of the investors, organizationally the Center should be as far removed from the government as possible. About the only way to achieve this result was by locating the IAC within the Chamber of Commerce of Afghanistan. The Chamber is a peculiar institution since it forms a sort of a link between the government and the private commer-

---

1. Miner. op. cit. p. III-8.

cial sector. Although the Chamber is composed of some thirty businessmen, its connection with the Ministry of Commerce is provided by a General President reporting to the Ministry of Commerce who controls its financial resources which are generally derived from the collection of license fees from commercial traders. Because the Chamber has its own budget, it has somewhat more flexibility in the use of its funds than the Ministry of Commerce which worked out to the benefit of the IAC.

Once the administrative location of the IAC had been decided upon, a major battle ensued in finding a physical location for the Center which for a considerable time was located in two rooms in the Chamber of Commerce until finally the Ministry of Commerce made adequate space available to it.

Obtaining funding for the Center posed a considerable problem since the Chamber obviously considered the IAC as a stepchild and an unwelcome drain on its finances. The principal saving grace was, that fortunately bilateral and multilateral advisers were available to it free of charge which enabled the Center to get started with the work. However, here another problem loomed in that under the existing set-up it became almost impossible to obtain trainable Afghan counterparts largely because of the IAC's small budget and the lack of "glamour" attached to a semi-official institution as compared to straight civil service status. Apart from this, to find candidates in Afghanistan who can be trained in the area of industrial extension is like finding the needle in the proverbial hay stack.

For all these reasons, the IAC as an Afghan institution never amounted to much during phase one of the program since during this phase most of the work was done by foreign specialists and relatively junior foreign advisers whose enthusiasm made up to a considerable degree for their lack of experience.

After the new Investment Law had proved to be successful in attracting new investments, the next logical step was to provide the investors with adequate industrial building sites since land for industrial purposes, complete with adequate water and power facilities, is extremely scarce in Kabul. To meet this problem, the government, in September 1969, made available about 320 hectares for the establishment of an Industrial Park near Kabul. The tract of land provided for this purpose is ideally located in the Pul-i-Charkhi area on the way to Jalalabad. It is located near major highways and sub-surface water of good quality is available in adequate volume. Electric power is ample and sewerage facilities can be built at a reasonable cost.

To develop the infrastructure for this Park, the government initially intended to request a $1 million loan from the Asian Development Bank. Partly because of difficulties in having such a loan approved by the Parliament as well as because the ever increasing problem of the external debt service, this idea was shelved in favor of using domestic financing which never was found. Thus, although a number of factories are actually located within the Industrial Park area, the creation of an Industrial Park and of an independent Industrial Park Authority is yet to materialize. However, thanks to a contribution of the government of India, a smaller industrial area has been developed within the original Park area.

By the time the first phase had been completed in late 1970, remarkable results had been achieved. What nobody had expected, the effect of the Private Investment Law was almost immediate. As soon as the potential investors realized that there was a "Court of Appeal" to which they could take their administrative problems encountered at the lower levels of the government, as well as competent advisors to help them in overcoming their difficulties, they began to file investment applications. Consequently, by December 31, 1970, some 130 investment applications had been approved, out of a total of 215 submitted. About twenty percent of these were export oriented while twenty-two were filed by foreign investors, many in partnerships with Afghans. Out of the above total number of investment applications, fifty-three new industrial establishments were actually in operation by the end of 1970. This seems to prove that, given proper surroundings, Afghan businessmen appear to be eminently responsive to those incentives which seem to operate so well in other developing countries. Prior to 1967, there had been doubts about this.

b. Export Promotion - The Afghan Karakul Institute (AKI)

In addition to its already expressed uneasiness about the budgetary implications of a growing but inefficient public industrial sector, in 1966 the government also became concerned about a decline in the karakul fur industry which for many years had been a major earner of hard currency.

Efforts to remedy this situation again started as part of the Private Enterprise Program with full support from the U.S. Agency for International Development which provided contract assistance through the firms of Thomas H. Miner and Assdciates and Vector Corporation both of Chicago, Illinois. Thus, in July 1966, the Afghan Karakul Institute (AKI) was chartered by the Royal Government of Afghanistan, as the nation's first major independent, non-profit and privately financed, self-development program in agriculture and industry.[1]

Once established, the Institute's objectives were as follows:

—To rebuild foreign buyer confidence in Afghan karakul.

—To develop an organization in Afghanistan which would unite the industry and through which all interests could participate in the industry's development.

—To create the financial resources necessary to support the industry's development and to use these resources judiciously.

—To develop a long-range plan of improvement and to carry out this plan effectively.

In order to accomplish these objectives, the Institute adopted several basic operating policies, namely: (a) that the Institute had to be both independent and honest; (b) that it would have to share decision making with all its members and (c) that the Institute must communicate periodically with its members and engage in proper public relations activities at home and abroad.

Because of strong support on the part of the government, progress made in this area was relatively rapid. The Afghan Karakul Institute has grown continually in stature and by 1973, it had become the country's leader for planning, developing, and coordinating the Afghan

---

1. For more details see: Vector Corporation. The Afghan Karakul Institute, Oak Brook, Illinois, May 1967, and:

Afghan Karakul Institute. Four Years of Progress in the Karakul Industry of Afghanitan. Kabul, August 1970.

karakul industry. Due to better curing, dusting, sorting and grading of skins, the quality of the final product was upgraded significantly. From its start, the Afghan Karakul Institute had recognized this problem. To solve it, the Institute constructed a new sorting house in Kabul. It searched the country for the best sorters and graders and placed them on its payroll to assure independent judgment. The Institute also adopted strong policies to control sorting and it used all media to instruct exporters in the proper buying of skins. Equally important, the produce mix changed materially to seventy percent gray and thirty percent black, which greatly improved Afghanistan's competitive position with South Africa and Russia which produce mostly black karakul. Previously, in 1968 these percentages were almost reversed.

Considerable progress was made in the area of market orientation and market policies. At its start, the Afghan Karakul Institute had no authority to change Afghanistan's auction policies. Yet, informally, largely through difficult educational efforts, the Institute brought about significant changes in this area and public auction has now become the major means for selling Afghan karakul.

Likewise, good progress was made in the handling of buyer complaints. When the Institute started, Afghanistan had few men in the London and New York auctions who spoke English. Complaints, therefore, fell largely on deaf ears. Furthermore, these representatives had no authority to act upon complaints and even if they did, there was no central organization in Afghanistan to whom they could turn for help. Fortunately, by 1973, these problems had all been solved. The representatives in London and New York speak English; they are well schooled businessmen; they have the authority to act and the Institute exists as a central organization in Afghanistan to back them up.

As a result of these efforts, within only a few years, foreign exchange earnings from karakul increased from some $9 million in 1968 to about $17 million in 1972. In 1973, there was a temporary decline because of severe drought conditions.

The average price of skins rose from $7.60 in 1967/68 to $14.16 in 1973, while quality skins were sold in the $16 to $23 range. It is interesting to note that the sharply increased income is largely due to better quality and preparation since the total number of skins sold in

1972/73, was slightly lower than in 1967/68. Although better world prices for karakul were evidently a factor, the point remains that because of its better organization, the AKI was able to take advantage of them.

Another interesting aspect of the project was that its impact was felt right down to the producer's level. AKI's flockowners education program and a program for broadening buyer competition have increased prices to flockowners from an average of Afs. 250 per skin in 1968 to Afs. 900 in 1973, which is very significant from a point of view of income distribution at the grass roots level. Every year at lambing time the President of the AKI went on the radio to inform flockowners at what price their skins were being sold in the world market so that they would have a defense against unscrupulous buyers. Previously, they were totally in the dark about this.

Prior to the formation of the Institute, the exchange rate for karakul was Afs. 45 per dollar (as compared to a much higher free rate of exchange) which amounted to an export tax. Thanks to AKI lobbying, karakul was subsequently exported at the free rate of exchange. This tended to eliminate the smuggling of skins and provided greater benefits to the producer.

About one-thousand suppliers, most of them small operators, now deal through the Institute. Since the larger suppliers showed increasing interest in taking advantage of other investment opportunities in Afghanistan and were moving out of the karakul trade, this provides the smaller entrepreneurs with an opportunity to enter the trade through the use of the Institute's services.

The Institute was put on a sound financial basis and is now self-supporting. It receives 3/4 of one percent of the gross proceeds of the sales in London and New York City, plus a fee of 1-1/2 Afghanis per pelt for sorting, grading, preparing for shipment, and arranging for shipping which altogether comes to a sizable annual income by Afghan standards.

The Afghan Karakul Institute was established as a non-profit organization. The non-profit concept was adopted as a means for re-investing surplus funds back into the industry. Previous to the existence of the Institute, everyone was taking from the industry and returning very little. The Institute has re-invested very substantial amounts back into the industry. To give only one example, $145,000 was invested in the construction of a much needed sorting house. Located just out of Kabul, this building is now considered one of the finest in the world for the sorting and grading of furs.

It would seem that this sub-project also offers some interesting lessons from a point of view of project planning and methodology.

When the project was started, the timing was right. Declining karakul exports were becoming a matter of national concern. There was at least a commercial readiness,a realization that something had to be done and this accounted for getting the proper support from the government. Particularly, the support by the Minister of Commerce was crucial in the early days.

The use of proper counterparts constituted another factor. To find capable Afghans to spearhead a project of this type was not easy; yet it was essential if the project was to result in permanent success. Training was achieved in depth, allowing for several of the trainees to fall by the wayside. Honesty and integrity were stressed in the selection of potential candidates. As a result, for some five years, the project wound up with the right Afghan management, which was able to provide an element of stability.

To a large degree, the project was built on Afghan pride in achievement rather than holding out "bait" in providing technical assistance. Thus, financial remuneration became of secondary importance to those involved in the project, the ultimate success of which is largely due to the dedication and prolonged tenure—rare in Afghanistan—of Mr. A. G. Redja, the Institute's first President.

From the beginning, the U.S. technical assistance was well equipped to handle a project of this type with relatively limited resources. Altogether, about $180,000 was spent for technical assistance, participant training and commodity support. The organization, marketing, advertising and public relations aspects were a natural for U.S. technical assistance. Where needed, additional assistance was sought from others, such as Hudson's Bay Company in London, which has a long history in the marketing of expensive furs.

Another important factor was the way in which the project was phased out. At first, there were resident advisers. As the project progressed, these were gradually withdrawn, giving the Afghans a chance to go it alone and to learn from their own experience. However, to minimize possible mistakes, periodic advisor visits were arranged for so that mistakes could still be corrected in time. This approach went a long way in developing local pride and self-reliance.

Started as a grant, the project made a deliberate effort to provide the AKI with enough competence, as well as equity, in time to be able to apply for a loan for its future development. This virtually provided a built-in termination date for the technical assistance program.

c. Promotion of Tourism

Tourism looks like a growth industry in Afghanistan, since the country offers a most unusual package to the tourist. There are natural attractions of an incredible beauty such as the Hindu Kush mountain range and the unique lakes of Band-i-Amir contained by a natural wall several meters high. In the villages, there are patterns of living which have not changed for centuries. For those who love to rough it, there are most unusual opportunities in hunting and mountain climbing. To top it off, the country is endowed with most unusual archeological resources ranging from the early greaco Buddhist and Kushan times to the Islamic periods and beyond. Many of the country's ruins still await excavation. The great Buddhas carved into a cliff in the valley of Bamyan are unique insofar as the statues and their setting is concerned. Add to this a morning in the Kabul bazaar and a day in the old historical city of Herat and the tourist attraction becomes almost perfect.

The Private Enterprise Program made a relatively minor effort in the promotion of tourism, an area which was completely neglected during the early 1960's. Although this effort was limited to the preparation of an initial program for the development of the tourist industry, it constituted an important factor in drawing the government's attention further to a potentially very important source of foreign exchange income.[1] Subsequent developments including the construction of an Intercontinental Hotel in Kabul provided ample justification of this initial effort.

---

1. See: Thomas H. Miner & Associates Inc. <u>Survey of Tourism in Afghanistan.</u> Chicago, Ill. 1965.

All during the 1963-73 decade, the Afghan Tourist Organization and the private sector were able to capitalize effectively on the existence of these resources. As a result, the number of visitors entering Afghanistan with a tourist visa increased from 6,000 in 1960 to well over 120,000 in 1972. About half of these were Pakistanis while most of the remainder were low budget visitors from European countries. Of the arrivals by air, about 45 percent came from the U.S. and Canada, 27 percent from Japan and 16 percent from Europe. The average length of stay for groups of air passengers is about four days as compared to ten days for land travel. As a general observation, it can be said that the length of stay is in inverse proportion to the visitors' income bracket or per day expenditure.[1]

Income from tourism in 1972 was in excess of $10 million.[2] In 1973, the number of tourists declined somewhat but 1973 figures are not typical because of the July 1973 military Coup which caused a large number of people to change their plans. However, according to reliable estimates, ultimately the annual income from tourism could well reach some $20 million a year. However, to reach such a figure would require a substantial investment in modern hotel facilities and related infrastructure. Because of the successes already achieved in this area, the World Bank has shown considerable interest in providing financial and technical assistance to Afghanistan for the development of this potential resource.

2. Significant Problems During the First Phase

Right from the start, it was obvious that, apart from the usual administrative difficulties, a program of this type would be confronted with serious problems of socio-political nature. By Afghan standards, the program was almost revolutionary because it clashed with many values of a traditional society. It was obviously going to be opposed by those whose pocketbooks would be effected by it—i.e., a large group of politically powerful importers—as well as by those whose position would be made less secure by changes in social mobility, new life styles and a new attitude towards

---

1. Moyens Techniques et Projects. A Study of the Development of the Tourist Industry in Afghanistan. Paris-Kabul, 1972, pp. 307.2-307.6.

2. Kabul Times, August 15, 1973.

authority i.e., the feudal aristocaracy. Leftist elements with a strong aversion to the private sector readily provided the ideological framework for attacks upon the pregram.

Initially these forces were more or less dormant for the simple reason that they did not believe that the program could or would succeed. However, as the number of industrial establishment and the number of workers increased and investors from abroad were beginning to come in, concern became more vocal. Instead of merely being frightening, the irreversable changes resulting from an industrial development program became an outright threat to the old ways of existence. Women were beginning to work alongside men, job promotion became based on merit rather than on family ties, and performance had to be related to results, a matter previously unheard of in the Afghan bureaucracy.

Almost simultaneously, the University was beginning to turn out vast numbers of graduates who could no longer be absorbed in the government bureaucracy as previously had been the case. This led to an increasing number of political demonstrations and merely added to the feeling of insecurity or outright fear on the part of the in-groups. The fact that they could no longer control the changes which could not possibly be reversed was disturbing in a society generally accustomed to tight controls from the top down. Memories of King Amanullah's attempts at forced social changes--as examplified by his efforts to free the women from the veil, contributing to his ultimate downfall—were still vivid.

Finally, the program was beginning to bring direct benefits to people who were relatively "unknown" by the standards of a feudal aristocracy, whose members were used to social and economic progress based on being known to and constituting no threat to the establishment. Quite a few of the new investors fell outside this category with merely making money becoming a criterion for success. The fact that they had a following, because of the number of people whom they employed, merely compounded the danger and was almost like creating new political party at a time when such parties were still not officially approved.

Another disturbing factor was that many of the new investors belonged to minority groups such as Uzbaks, Tajiks and Turkomen interspersed with a sprinkling of Hazaras whose rise was looked upon with a jaundiced eye.

The first overt attack on the program was made in the spring of 1970 when the Afghan equivalent of the U.S. General Auditing Office accused the investors of illegal re-export of duty-free yarn to Pakistan. In a way their attack constituted an official recognition of the program as such since previously the people opposed to it would merely state that the factories did not exist or that they were merely a front for contraband trade activities.

At the time the target was the rayon textile industry which was accused of the re-export of duty-free yarn to Pakistan. The means was an official investigation which might be better described as harrassment and which included the seizure of books and documents from private factories, seizure and sequestration of raw materials, temporary seizure of the persons of the workers and their interrogation and temporary occupation of private textile mills by government officials.[1] The attack and subsequent stoppage of operations resulted in great economic loss to the factories and some of the investors actually became discouraged, indicating that then and there they gave up their plans for further expansion. Although in the initial stage there were obviously some unscrupulous investors, the attack was a clearcut case of over-reaction. It had a distinct undertone of anti-private sector sentiment since some of the government investigators stated openly that private factories were not good for the country inasmuch as they tended to concentrate wealth in the hands of only a few families as had been the case in Pakistan.

The respective struggle, which even included direct insinuations against the Secretary of the Investment Committee, lasted for several months. After some of the charges had been thrown out in court and the then Minister of Commerce had thrown in his weight in favor of the investors, it began to subside culminating in a decision in favor of the investors by the Economic Ministers. Bureaucratically, the program had evidently arrived since it was found to be too valuable to be sacrificed in order to please the forces of traditionalism.

Another serious problem during the first phase was the fact that as the program took off, there was a deluge of investment applications and too few foreign experts to analyze their merits in depth. Initially this

---

1. See: Miner, op. cit. VII-5.

proved to be no problem because most of the proposals for new industries were of the "obvious kind" i.e., to start new export industries based on locally available raw materials such as raw hides and grapes or else they were concerned with the most rudimentary aspects of import substitution such as developing a rayon textile industry to replace a sizable contraband traffic in imported rayon fabrics.

However, at the end of the first phase, some more complicated proposals were being presented which required an analysis in depth both from a point of view of the investors' chances for survival as well as from the national interest. To deal with these placed a heavy burden on the foreign advisers who in the absence of a competent Afghan staff frequently had to work sixty hours a week to keep up with the barrage of new applications. Hence, gradually the need was recognized to draw up a list of priorities for new industries which then led to the second phase of the program during which the emphasis was changed from helping individual investors to the development of more general industrial policies.

3. Multilateral Aspects

All through the Private Enterprise Program, there was a strong emphasis on multilateral co-operation and co-ordination with other institutions on the part of the USAID Mission and the U.S. private enterprise advisers. It was believed that such co-operation would give the program more stature in addition to reducing costs to the U.S. Government.

First there was a most important contribution made by the Asia Foundation which provided a legal expert to help draft the Private Investment Law. The Foundation did not stop at this; it also provided a food processing adviser who played a key role in the development of the raisin industry.

An important contribution was also made by the Hendrikson Group from West Germany which for several years provided a junior economic adviser to the IAC. A similar contribution was made by the French government while Great Britain supplied a textile expert for about one year.

UNIDO provided a leather and tanning expert as well as some non-descript short termers. The leather expert made a significant contribution to the success of the project.

The Peace Corps also gave valuable assistance both to the AKI and the IAC by making available several volunteers specialized in accounting and management functions.

All through the program, an effort was made by the U. S. advisers to act as a catalyst for new activities which could subsequently be picked up by multilateral donors. For instance, in the case of the Industrial Park, the U. S. advisers tried to get the project sufficiently underway so that the government of Afghanistan could apply for a loan to the Asian Development Bank, to finance the execution of the project.

The same was true with respect to the establishment of the Industrial Development Bank to be discussed later. The U. S. advisers did considerable work in preparing the project to a point where a multilateral donor such as the U. N. D. P. or the IBRD could take over. Tourism is another case in point since the World Bank has become very much interested in providing assistance in this area.

In the case of the AKI, the U. S. advisers limited their efforts strictly to the marketing aspect with the understanding that the next stage i.e., improving the animal itself so as to get an even more saleable fur, would be diverted to another donor.

Particularly during the first phase, the "catalytic" effect of the program was quite significant since relatively small inputs of technical assistance were able to uncover either substantial domestic resources or else to lay the groundwork for subsequent multilateral support. This proved to be of great help during the second phase which will be discussed below.

B. Phase Two

1. The Major Project Components

a. Industrial Policy Formulation

Although the second phase of the program, carried out under an AID contract with Checchi and Company, constituted in many respects a continuation from phase one, there were important differences. As the number of industrial establishments increased from fifty three to about one hundred, it was obviously no longer possible nor desirable for the foreign advisers to play an operational role in the solution of the investors' problems vis-a-vis the various government offices. Hence, during the second phase, the emphasis shifted more to the conscious development of industrial policy and institutional development. The word "conscious" is important. Obviously during the first phase, the Investment Committee was faced with the necessity of making a number of decisions which over a period of time also resulted in the establishment of a certain, no matter how rudimentary, industrial policy. However, this "policy" involved mostly ad-hoc decisions.

In essence, the Committee's philosophy during the early days of the program was one of complete "laissez faire". Initially, this made sense since the Investment Committee was navigating in uncharted waters. For instance, when the first investor who proposed to build a steel re-rolling mill stated his need for importing steel billets, the Committee had to learn what billets were and it did so by carefully looking at one, (see Annex B of the Appendix). Even if it had wanted to do so, in the early days the Committee obviously lacked the capability of administering a Pakistani type of "sanctions" system for the approval of new industries.

As pointed out, initially the Committee did not believe in any controls or quotas since the idea was to attract as much investment as possible through providing a maximum degree of freedom to the individual investor. Only when things tended to get out of hand, did the Committee establish some limitations as was done in the case of the initial stampede to invest in the rayon textile industry based on the "follow the leader" principle. Thus, after a rough estimate of market demand, the Investment Committee decided in 1970 that no more applications for rayon textile mills would be approved until further notice.

As time went by, and gradually giving in to pressures from other quarters, the Investment Committee took it upon itself to consider new applications for private investment more in the light of national development objectives and began to think in terms of "priority needs". In a way, this constituted a departure from the general concept of the 1967 Private Investment Law which was merely concerned with ascertaining that the prospective investor would meet the legal requirements so as to be entitled to receive the privileges provided under the law. However, by international standards, the policy of the Afghan government still remained very liberal inasmuch no restrictions were put in the way of any investor who was willing to forego the benefits provided under the Foreign and Domestic Private Investment Law. Several investors actually preferred this avenue, feeling that the loss of certain benefits under the law was offset by their greater freedom from increasingly cumbersome government controls.

In stressing the development of industrial policy and the support of already existing industry, the second phase of the program concentrated mainly on four major areas, as follows:

—Improvement of the performance of the Investment Committee and particularly its Secretariat for the purpose of effecting gradually a shift from direct to indirect controls.

—Improving the Investment Climate by providing more technical support to prospective and existing private industry.

— Institutional Development, including the introduction of legislative changes in support of the private industrial sector.

—Research in support of all the three goals outlined above.

In trying to make progress under these four headings, the Contractor, Checchi and Company, faced a most difficult task. While during the first phase spectacular results could be obtained because the program was practically starting from a zero base, during the second phase there was a need for much more detailed analytical work, argumentation and persuasion, which is clearly unglamorous and usually does not result in any kudos.

As additional investors filed applications for investment, the Investment Committee became more and more bogged down in details of which, by definition, it should not have taken cognizance. To give only one example, because of a defective import duty structure, the Investment Committee, in passing on duty-free import privileges, became deeply involved in the day-to-day operations of the private investors.

All along, import duties on raw materials were so high, and on finished goods so low or, in some cases, reversed, that few industries could be established in Afghanistan without the relief from raw materials duties afforded by the Investment Law of 1967 or earlier legislation. Thus, virtually all non-government projects had to be handled by the Investment Committee. In this respect, Afghanistan was unique, or nearly so.

This situation gave rise to two related problems. First, the Investment Committee itself became deeply involved in nearly every project, which brought the predictable bureaucratic delays, inefficiencies and other problems. Secondly, since the Law provided duty-free raw materials for only five years, and few industries could continue to exist without such benefits after the fifth year, what would happen to those industries after the end of the five-year period?

The long-term solution to both problems was obviously a reform of the duty structure which would increase significantly the spread between duties on raw materials and those on related finished goods. This reform would open up numerous industrial opportunities which would require only limited Investment Committee action, i.e., basic approval for licensing and an income tax holiday. It would also make it relatively easy for approved firms to continue after the five-year duty-free period under the law was over.

The next important requirement was to improve the quality of the projects which came before the Investment Committee so that fewer questions of an analytical nature would arise. This was done through an effort to improve the planning and preliminary work on the part of the investors, the IAC staff and the advisers. The need for a more analytical project analysis and market studies can easily been seen from the fact that during the second phase, the investment proposals tended to become much more complex. In 1971, several larger projects were implemented such as the establishment of an oil blending plant, a soap factory and a pharmaceutical plant, almost all of which were constructed with substantial financial participation from abroad.

As the complexity of the later proposals increased, it became more and more difficult for the five Ministers to deal with the respective details in the Committee meetings. Hence, a Sub-Committee was appointed composed of lower level officials of the respective five Ministries to make "recommendations" to the Committee. Although the Sub-Committee lacked the necessary preparation and experience to do so in an effective manner, this at least put more pressure on the Investment Advisory Center for a more critical analysis of the proposed new projects.

Another problem was the fact that in view of the earlier described family loyalties, the Committee, in some cases, tended to over-look the negative recommendations made by the Investment Advisory Center and approve the project anyway. Obviously, this was hard on the IAC staff and the Checchi advisers.

Fortunately, there was a safety valve here. As long as Afghanistan was maintaining a free rate of exchange while at the same time the loose control of its borders threatened competition from abroad, the investor could not go very far in implementing a project which was basically unsound. Unless he was quite stubborn about implementing an unworkable project, all that could happen is that the project might not be of particular interest from a point of view of national development, a criterion which was not established in the investment law anyway. Fortunately, the approval of applications based on such a preferential treatment was limited.

To lend more legitimacy to the program, it became necessary to draw up industrial priorities for the private sector which subsequently could and were incorporated in the Fourth Five Year Plan. This again forced the Committee to think about industrial policy in a more abstract way rather than through incidental preferences or objections. Once it had been decided to do this, it automatically brought up the question of linkages between the Private Enterprise Program and its policies and the overall economic policy of the government.

To sum it up, although not always successful, the new industrial policy was designed to bring about a shift from direct to indirect controls. By doing so, the government tended to reduce and to some extent eliminate the role of a growing bureaucracy charged with the implementation of the Investment Law which generally was ill-prepared for this task. Furthermore, direct controls obviously tended to open the gates to corruption and favoritism which was exactly what the philosophy originally embodied in the Investment Law tried to eliminate. Thus, a conscious effort was made in automatically reducing some of the bureaucratic obstacles facing the investor by reducing the involvement of the bureaucracy itself.

b. Industrial Extension

The second goal requires relatively little explanation since the activity in question can largely be summarized as the provision of standard industrial extension services. Most of this was done through the strengthening of the capabilities of the Investment Advisory Center and by providing management assistance to it. While the lack of trainable Afghan counterparts remained a problem for a considerable period of time, gradually the IAC was able to develop some local competence in this area, thus correspondingly reducing the role of the foreign advisers.

A big step forward, in the summer of 1972, was the government's decision to provide more adequate quarters to the Investment Advisory Center by locating it in the back of the Ministry of Commerce. The provision of some research materials and equipment by AID constituted another step in the right direction. Thus, gradually, although painfully slow by non-Afghan standards, the IAC began to develop a rudimentary capability to engage in market studies, in the preparation of periodic and special reports for the Investment Committee as well as in developing promotional material, such as an Investment Opportunity List composed of some twenty five industrial opportunities.[1] This list was prepared to meet the needs of some investors who—while having the necessary funds and willingness to invest—had no clear ideas about what they wanted to invest in.

Last but not least, the IAC also started to develop its capability to provide direct technical assistance to actual investors although obviously in this area the main burden continued to be on the foreign advisers. As time went by, it more or less assumed the role of a rudimentary productivity center. In several instances, by introducing better methods and procedures, the foreign advisers to the Center were able to effect dramatic savings. To give only one example of the type of assistance rendered, by improving the moulds for plastic shoe manufacturing, a vast amount of labor correcting each shoe coming out of the defective mould could be eliminated. To the factory, this made almost the difference between a profit and a loss.

Participant training provided by multilateral agencies was important in getting the Afghan counterparts to the Center take over more

---

1. Afghanistan, Ministry of Commerce. Investment Advisory Center. Publication No. 2. Investment Opportunity List. Basic Data on Projects Which May Be Feasible for Afghanistan. Kabul, 1972.

of the functions of the foreign advisers. Links were also sought with other institutions such as the Kabul University's Center for Engineering Consulting Services and Applied Research in order to draw upon capability already developed by other aid programs. Another important link was developed with the U.S. Peace Corps in the provision of accounting training, a most important service in view of the requirement in the Private Investment Law making the new industries subject to annual audits.

The Center also played an important role in developing industrial linkages, i.e., making the new factories work in support of each other. However, this could only be done towards the end of the project and after Mr. George Thomas, a U.S. direct hire industrial engineer had been added to the Mission staff. The acquisition of Mr. Thomas by the Mission constitutes an interesting story in itself. From a point of view of project implementation, the type of services provided by Mr. Thomas were obviously needed for quite a long time. As a matter of fact, USAID had considered requesting his services about two years earlier. However, doing so ran counter to AID/Washington's thinking about industry programs in general, which can be summarized in one sentence as follows: While we used to involve ourselves in industry programs years ago, we don't do this any more, the implication being that finally some of the countries needing industrial development such as Korea or Taiwan had come of age and were able to go it alone.

Yet, the time frame of development is important since some countries such as Afghanistan are now at a stage where some of these other countries were years ago. Unfortunately, for the Club of the Twenty Five Least Developed Countries most of them woke up too late to benefit from AID's earlier largesse in this area!

Fortunately for the Program, Mr. Thomas' reputation was well known to some of the higher policy level officials of AID so that he finally did appear on the scene. Apart from making a dramatic effort in increasing industrial productivity, one of the first problems tackled by Mr. Thomas was that of industrial linkages. The problem here was that because of the duty-free import privileges enjoyed by the new industries under the Investment Law, a tendency was gradually developing towards indiscriminate imports from abroad. By showing the investors that they could have certain parts or machinery made for them by other industries established under the program, without the need to wait for imports and at a lower cost, efficiency increased in the industries so affected while at the same time the supplier industries were able to reduce their idle capacity.

During the second phase of the program, a conscious and successful effort was also made to increase the Afghan contribution to the IAC's budget as well as to shift more and more of the functions of the Investment Committee Secretariat to the Center. At the start of the program, the first step in filing an investment application was usually a discussion of the project between the prospective investor and the Secretary of the Investment Committee. At that time, the Secretary explained the operation of the Private Investment Law, discussed the various aspects of company formation, and checked if there were any other proposals similar to the one submitted. Depending on the case, at this point, there might have been also a discussion with the Minister of Commerce. The Secretary then prepared a letter to the Investment Advisory Center advising the IAC that initial approval had been granted and requesting that the Center assist the investor if necessary.[1]

When the Investment Committee arbitrarily shifted from a "laissez faire" approach to requiring a project justification in national economic terms, it became obviously more government rather than investor oriented. Hence, the need occurred to provide the investor with some services which would be primarily concerned with his interest, in particularly the preparation of his investment application. This provided another rationale for removing the Center as far as possible from the government by placing it administratively under the Chamber of Commerce. As we shall see below, in the end it was not possible to maintain this stance since after June 1973, the Investment Advisory Center was no longer allowed to exist as a separate organization but became part of the Ministry of Mines and Industries.

Because of the Investment Committee's concern with detail, the careful preparation of the investment application was very important to the future of the project. In the first instance, of course, the application, and related documents, were the basis for the Committee's consideration of the project. Equally important, however, was the fact that, once approved, the subsequent implementation of the project remained tied to the application. With regard to the duty-free importation of machinery and raw materials, the specific items and amounts which would be permitted were those shown in the application. Should the applicant underestimate his requirements, he would be expected to pay duty on the excess unless his application was amended or, for small amounts, unless specific approval of the Minister of Commerce was obtained. In case the investor had no specific investment idea but had money to invest, a relatively frequent occurrence, the staff and the foreign

1. For more details on the initial procedures, see: Zondag, C.H. Private Industrial Investment in Afghanistan. USAID, Kabul, 1971, passim.

advisers at the Center usually explored the various possibilities with the investor and assisted him in preparing his application.

In theory, the IAC's analysis was concerned with such items as: technical analysis, cost of machinery and raw materials, operating costs, market information, personnel requirements and how they would be met, foreign exchange implications, sources of financing, import requirements, etc., but in practice, in most cases it still lacked the capability to do so unless assistance was provided by the foreign advisers.

c. Institutional Development

In the area of new institutional development, two achievements stand out during the second phase. In both of these, the U.S. contract advisers played a major role. The first was the creation of an Association of Private Investors capable of representing the interests of the new industrialists vis-a-vis the government. Originally, the Mission's Private Enterprise Division intended to achieve this result through conducting a management seminar for the more prominent private investors in the hope that this would also bring them together to form an Association. However, the association developed spontaneously after the Checchi Team had put in a considerable effort in helping the investors to organize an industrial exhibit during the spring of 1972 where thirty five of the new factories displayed their products to the public. This led to the subsequent formation of an "Afghan Association of Private Industries" composed initially of some 65 members. Apparently, the investors, in talking to each other, discovered that they had a lot of problems in common and that jointly they could present a better case to the government than by doing so in isolation.

The government's reaction to the group was initially cautious. Still fearful of labor unions and other political organizations, it objected to their initial proposal of calling the new group a "Union of Manufacturers". However, it approved them subsequently as an Association".

Again, such a development may not mean much in other countries but in Afghanistan where only a few years earlier individual investors were almost afraid to present their complaints to the Ministries in a forceful manner, this meant a lot. If anything, the Association set up a channel of formal communication between the investors and government. As the latter gradually became more aware of the benefits of the program in terms of contributions to employment and foreign exchange earnings and savings, it began to listen more attentively to the investors. Above all, the Association became an important tool in coordinating the national industrial development goals as expressed in the Fourth Five Year Plan with the interest of the private investors.

Another important accomplishment in the area of institutional development was the establishment of an Industrial Development Bank in the spring of 1973. Here again, the role of the Contractor, Checchi and Company, was crucial inasmuch it filled the gap created by the departure of the Nathan Team[1] which had nurtured the project for a number of years. Thus, in 1972, one of the Checchi advisers was asked by the government to become the principal coordinator for the establishment of the Bank. In that role he worked closely with a World Bank Mission which visited Afghanistan in July 1972 to straighten out many details regarding the establishment of the Industrial Development Bank. The adviser also prepared a number of key documents including a detailed description of the proposed Bank and its operations, its Articles of Incorporation and other special papers. Because of the obvious lack of Afghan competence in this area, the adviser's role was crucial in getting the project started.[2]

The history of this institution is likewise enlightening.[3] The establishment of an Industrial Development Bank had first been discussed some ten years earlier but right from the start it ran into difficulties. In general, these difficulties centered around the question as to whether the Bank should be private or public in character. Some people were opposed to the concept itself, expressing the fear that such a bank would tend to favor only a small group of people who as the result of the loans obtained would be able to accumulate considerable wealth as had been the case with the twenty millionaire families who emerged in Pakistan during the regime of President Ayoub Khan. From a political point of view, distributing the poverty was obviously more acceptable than

---

1. Robert R. Nathan and Associates, Inc. of Washington, D.C. maintained an economic planning team in Afghanistan for a number of years.

2. For more details, see: Checchi and Company. Fourth Semi-Annual Report January-June 1973.

3. For more details, see: History and Status of the Proposed Industrial Development Bank of Afghanistan, USAID, Kabul, 1972, (mimeographed).

creating wealth, even if the need for more industrial jobs was at the same time proclaimed as a national objective of relatively high priority.

When assistance was requested, in 1966, from the International Finance Corporation (IFC), a World Bank affiliate, in order to establish such a bank, the project ran again into trouble because the IFC appeared to be reluctant to move until the promulgation of a new private investment law. The IFC was clearly concerned about the investment climate in Afghanistan as it existed at the time. It also insisted on a large participation in the Bank by Afghan private investors.

An additional hurdle had to be overcome in the form of establishing a proper legal base for the establishment of the Bank. To get the respective law approved by the Parliament required extensive maneuvering. Actual approval did not materialize until in August 1971, the King threw his weight behind it although as early as 1967 a draft law to establish the Industrial Bank had been approved by the Cabinet. Thus, it took until 1973 for the Industrial Bank to become a reality.

As presently constituted, the Bank's total equity is Afs. 240 million of which forty percent or Afs. 96 million was subscribed by a number of foreign banks and the International Finance Corporation. The group of foreign banks is composed of the Chase Manhattan Overseas Banking Corporation, the First National City Overseas Investment Corporation, the Industrial Bank of Japan Ltd., the National Westminister Bank Ltd. and the Credit Lyonnais. Afghan shareholders contributed the remaining sixty percent of the equity or Afs. 144 million. The Banke Millie Afghan, the Chambers of Commerce of Afghanistan and the Pashtany Tejaraty Bank are the largest Afghan shareholders, having nearly 100,000 shares among them. The remaining shares are held by about 160 private Afghan businesses and individual investors.

In addition to its equity capital of Afs. 240 million, the Bank received a commitment for an Afs. 560 million loan from the Government of Afghanistan. The institution also obtained a $2 million line of credit from the International Development Association (IDA), designed to cover its hard currency requirements for about two years. After that time, it is understood that additional IDA funds would be made available to meet the Bank's further needs. During its first five years of operation, the Bank was to be supported by a three-man foreign management team, funded by the U.N.D.P. with the World Bank acting as executing agency.

d. Research

Because of the need to develop more adequate industrial policies, a greater effort in research was necessary to properly define such policies. As pointed out, initially these efforts were focussed on a revision of the tariff to make it more development rather than revenue oriented.[1] In a subsequent stage the research effort was directed to tying the promotion of industrial development in with other national goals such as the development of additional agribusiness ventures for export. Another research thrust was made in the direction of the geographic diversification of industry in order to diminish the concentration of industry in the Kabul area.

- - -- - -

In spite of many difficulties, by the middle of 1973, the new private industries were well established. As a matter of fact, by that time the program had become too large to be administered by the Ministry of Commerce. Hence, for the sake of a better coordination between all industries, both private and public, a decision was reached in June 1973 to transfer the control over the Private Enterprise Program from the Ministry of Commerce to the Ministry of Mines and Industries which gradually had lost its initial hostile attitude to it.

Consequently, a separate division was created in the Ministry of Mines and Industries consisting of two general directorates, one to handle investment applications, surveys and technical assistance, i.e., comprising all of the investor oriented functions previously handled by the Investment Advisory Center, and one which would continue to handle the work which formerly was the province of the Secretariat of the Investment Committee.

The loss of having the old IAC operating at some arms length from the government was compensated in part by a much larger financial contribution from the Ministry of Mines and Industries, and a more positive attitude by the latter Ministry to private investment in general. In addition,

---

1. For more details see: Checchi and Company. Afghanistan, Recommended Revised Custom Tariff Based on SITC Codes, Kabul, April 1973.

a Planning and Policy Board was created for the development of industrial policy and to create a better coordination between the private and the public industrial sectors.

After the fall of the Monarchy in July 1973, the government's interest in industrial development was confirmed by the President of the Republic who made the following statements in his inaugural address:

> "The Republican State of Afghanistan attaches great importance to heavy industries, such as extraction of mines, and metal and machine building industries, chemical industries and electric power, which insure rapid economic growth and consolidation of the independence of the country; serious steps are envisaged to be taken in this sector of the economy. Exploitation of the Hajigak iron ore for setting up a smelting mill and industrialization of the country is our long cherished wish.
>
> The Republican State will encourage, protect and guide and control private investment and private enterprise in the field of light and medium industries as well as handicrafts, and necessary cooperation will be insured between the private and state capitals for progress, coordination and balanced economic growth.
>
> The Republican State considers the protection of national industries and handicrafts as well as national arts its paramount duty, and will adopt a policy of protection for home industries and commercial enterprises against the competing foreign products and capital."[1]

While this statement is obviously a reconfirmation of the guided-mixed industrial development concept, it also reflects the government's recognition of the new private industrial sector. To put it in one sentence, what the government had in mind was that the private industrial sector would be given strong support and protection provided its activities were in line with the national interest as outlined in the Fourth Five Year Plan.

---

1. Kabul Times, August 26, 1973.

2. The Mining Sector

On various occasions, the government expressed interest in mineral development as part of its Private Enterprise Program because the Foreign and Domestic Private Investment Law included a clause on mineral development. As may be noted from the Appendix, Article 26 of the 1967 Private Investment Law specifically mentioned the possibility of private investment, either domestic or foreign, in minerals exploration and exploitation.

Such an interest made sense because as may be noted from Annex D of the Appendix, Afghanistan's mineral potential is promising.

Although the subject was tabled on several occasions, mainly in terms of the possibility of AID providing technical assistance in the drafting of a proper mining and petroleum code, nothing much was accomplished in this area mainly because of the government's lack of familiarity with this area. While private sector mineral development, including foreign investment, was considered desirable by the government as a means to increase foreign exchange earnings and to provide employment outside the cities, there was at the same time a strong fear that, because of its inexperience, the government might be taken advantage of by foreign companies. Hence, there was a tendency to give preference to "experimenting first with one or two small concessions" rather than taking the plunge and enact an attractive mining or petroleum code which would provide equal opportunity to all investors. Another problem was that getting such legislation passed by the Parliament, presented almost unsurmountable problems.

Nevertheless, after the 1973 Coup d' Etat which eliminated the Parliament, the Checchi advisers did become involved in a review of a proposal by the Cie. Francaise des Petroles for the exploration and exploitation of the country's petroleum resources. This included comments on a draft petroleum code prepared by a former Deputy Minister of Mines and Industries, Mr. Abdul Quddus Majid. The ultimate outcome of these negotiations is still uncertain at this time.

3. Significant Problems During the Second Phase

As the program expanded, its problems, naturally, became more complex. One of the principal problems was that as the government began to look at the private industrial sector more from a point of view of its contribution to the national economy, the need for a clear industrial policy became even more apparent. The fact that many of these decisions were still made on ad-hoc basis, contributed to a certain uneasiness on the part of the investors.

In a number of cases, cumbersome procedures and delays in decision making resulted in the investor losing a great deal of time and money. Failure to implement the Investment Law in specific cases such as compliance with the requirement of Article 16 of the 1967 Investment Law—which stated that once local industry produced a product equal in price and quality to the imported one, all government agencies would have to purchase the domestic product—resulted in a considerable excess capacity and caused additional hardship.

As a result, early in 1973, the investment climate began to deteriorate and many potential investors, especially those from abroad, took to the sidelines. The problem was further complicated by the fact that the general tension between India and Pakistan, culminating in the secession of Bangladesh and the resulting tighter control of the Pakistan border, made exports, either legal or illegal, of Afghan products more difficult.

Another problem was that in spite of the establishment of the Afghan Association of Private Industries, the effective communication between this group and the government still left much to be desired. Furthermore, the inability of the Ministry of Commerce to handle a large program of this kind resulted in an increasingly weak support for the private industrial sector. Thus, good opportunities in mining and tourism were missed as a result of the general incertainty.

As pointed out, the transfer of the Program in 1973 from the Ministry of Commerce to the Ministry of Mines and Industries was a mixed blessing. However, since this change was superceded by the July 1973 Coup d' Etat, it did not have a serious effect on program implementation except for making the procedures more bureaucratic.

While these negative factors were serious and in some cases quite damaging, they were offset in part by favorable developments such as the establishment of the Industrial Bank and a gradual realization on the part of the government that if the private sector were to continue making a significant contribution, a drastic and more positive change of attitude toward the program would be required.

After the 1973 Coup, the Private Enterprise Program remained in limbo for a number of months, because obviously the government had more urgent matters to attend to. Thus, for some eleven months, no new investment applications were dealt with in a responsable manner by the Investment Committee and decisions on vital matters affecting the program delayed. Yet, it is interesting to note that during the second half of 1973, i.e., after the Coup, five new factories opened their doors, one of them quite large and with a substantial participation from abroad.

As conditions became more normal, the government turned its attention to the proposed amendments in the 1967 Private Investment Law and a revision of the tariff. Such amendments were highly desirable because the Dari text of the 1967 Law was quite ambiguous on a number of points. However, once in the act, the government "over-amended" by making some more drastic changes and promulgating a new Private Investment Law, now quoted as the Foreign and Domestic Private Investment Law of 1974. Annex C of the Appendix shows the text of the old and the new laws side by side.

The initial reaction to the new law, particularly of the foreign investors, was quite unfavorable. However, as pointed out above, the new law has some good points inasmuch it clarifies ambiguities under the old law and eliminates certain, presumably, favorable aspects which, although written in the old law such as Article 26 on mineral exploitation, were not being implemented anyway.

The major improvements in the new Investment Law are: (1) a removal of the time limit on duty-free importation of capital goods (was five years) and duty-free export of products (was ten years); (2) a provision for somewhat improved benefits for projects located outside of Kabul province, to encourage dispersion of industry; (3) a listing of the bases for approving projects, which should help establish priorities; (4) a minor strengthening of the clause requiring government to favor local suppliers, and (5) a strengthened requirement regarding auditing.

From an administrative aspect, another favorable change was that almost simultaneously with the promulgation of the new Investment Law, the Private Enterprise Program was transferred from the Ministry of Mines and Industries to the Ministry of Planning. Apart from the fact that the latter Ministry has been gaining in stature since the establishment of the Republic, it also provides a better vehicle for coordination which is important in implementing agribusiness projects, requiring the involvement of several Ministries.

The major unfavorable features of the new law are: (1) a requirement that all projects have at least 51 percent Afghan equity participation; (2) a shift from duty-free raw materials to an arrangement whereby individual duties for approved projects will be set annually for individual raw materials; (3) a reduction from five to four years of the tax holiday, and a number of other minor reductions in the extent of benefits; (4) increased emphasis on control rather than promotion in a number of areas, and (5) a provision which makes the law retroactive to all projects previously approved in the sense that, once the law is published in the Official Gazette, the former projects must conform to the new law. This retroactivity provision, understandably, is most opposed by existing enterprises, especially foreign.

During the several months that the law was under discussion, the USAID Private Enterprise advisers prepared complete proposed drafts and, on request, many other proposals on specific sections of the law. However, the advisers did not participate directly in the special committee, the Investment Committee or Cabinet deliberations. The final result is, in many respects, different from what the advisers recommended and hoped for.

VI. RESULTS

By June 30, 1974, one-hundred[1] new industrial establishments representing an investment of Afs. 1.2 billion had been established under the provisions of the 1967 Private Investment Law.[2] Considering the different exchange rates in effect during the period, this investment comes to about $15 million equivalent. Since the Industrial Bank had not

---

1. For a detailed list of all the establishments, see Annex E of the Appendix.

2. Source: Ministry of Planning. The Investment Committee of Afghanistan.

as yet made any loans prior to 1974, almost all of this capital was mobilized without the benefit of any industrial financing.

By June 30, 1974, a total of 260 investment applications had been submitted to the Investment Committee, excluding nineteen which had been superseded by applications for modification or expansion. Of these, 210 had been approved; only twenty-seven were rejected. The balance was pending final Committee action. Seventeen industries had stopped production for various reasons; seven only temporarily, while twenty were under construction and expected to start operating in the very near future. The total employment created by these new industries came to about 7,000 jobs, most of them for semi-skilled workers.

A breakdown of the new industrial establishments by major fields of activity and geographic location is shown in the tables on the next two pages. As may be noted, most of the new industries (82) were located in Kabul. Six were located in Kandahar, four in Jalalabad, three in Mazar-i-Sharif and one in Aqcha. Four more were located in Herat and Charikar. This clearly reflects the difficulty of establishing industry outside of Kabul because of the lack of power and infrastructural facilities.

Of the total investment of some Afs. 1.2 billion about three quarters represented domestic investment; only about one-fourth was foreign, either one-hundred percent or in combination with Afghans but these generally represented the largest investments. West German investment accounted for the largest share because of the $2 million investment in the Hoechst pharmaceutical plant. The capital of the others was Pakistani (6%), American or Swiss (about 3% each) and British, Indian, Turkish, Italian or Iranian (about one percent or less each).

What is particularly gratifying is the relatively high percentage of new industries—about thirty percent—which are export-oriented. Another interesting aspect is that as a revived private industrial sector expanded, it began to concentrate on the creation of clusters of new industries of national importance such as textiles, leather and tanning or raisin processing for export. Industrial linkages developed between the various plants supplying each other, thus reducing the need for imports.

For instance, in the rayon textile weaving field, 18 firms were operating in 1974. Some Afs. 240 million had been invested in these

PRIVATE INDUSTRIAL PROJECTS ESTABLISHED UNDER THE 1967 PRIVATE INVESTMENT LAW (1967-74)

(Total investment, nationality and geographic location)
(All figures rounded)

Type of Project	Total	Export Oriented	Partially[1] Export Oriented	Domestic Oriented
Number of projects	100	28	8	64
Estimated investment[2] (millions of Afs)	1,204	236	104	864
Percent of investment	100%	20%	9%	71%

Geographic Location	Kabul	Jalalabad	Mazar	Kandahar	Herat	Charikar	Aqcha
Number of projects	82	4	3	6	2	2	1
Estimated investment (millions of Afs)	1,037	48	16	41	27	15	20
Percent of investment	87%	4%	1%	3%	2%	1%	2%

Nationality of Investment[3]	Afghan	Pak.	Ind.	USA	UK	Germany	Swiss	Italy	Iran	Turkey
Number of projects[4]	92	7	3	3	2	2	1	1	1	1
Estimated investment (millions of Afs)	892	69	10	38	15	128	35	5	2	10
Percent of investment	75%	6%	1%	3%	1%	11%	3%	1%		1%

1. Projects which sell much of their output to foreigners. This is economically the same as exporting.
2. Excluding IDBA, Hayat, Akbary and projects under construction. Includes Afs. 15 million for AHU under exports.
3. According to applications.
4. Projects with any percentage of foreign investment are counted under the foreign country as well as Afghanistan. Therefore, the total exceeds 100 (is 113). For investment, the percentage is used, so the total equals Afs. 1,204 million.

Source: Investment Committee of Afghanistan.

PRIVATE INDUSTRIAL PROJECTS ESTABLISHED UNDER THE 1967 PRIVATE INVESTMENT LAW (1967-74)

(By type of activity)

Export Oriented	
Animal casings[2]	2
Raisin processing	9
Leather and tanning[2]	10
Honey processing	2
Bone meal	1
Fur raising and processing	1
Wine making	1
Nut processing	2
Total	28

Partially Export[1] Oriented	
Dry cleaning	4
Sausage mfg.	1
Cardboard containers[3]	1
Coca Cola/Fanta	1
Data processing	1
Total	8

Oriented Towards Domestic Market	
Rayon weaving[4]	18
Rayon spinning	1
Knitted goods	2
Steel re-rolling	2
Printing	3
Edible oil	1
Metal Fabricating (furniture, bus bodies, etc.)	8
Plastic products, (bags)	7
Plastic footwear	5
Building tiles	1
Soap	1
Detergents	1
Lubricants blending	1
Paint, insecticides	1
Pharmaceuticals	2
Ice plants	3
Foam rubber/mattresses	1
Leather shoes[5]	2
Storage batteries	1
Accounting	2
Development Bank	1
Total	64

1. These firms sell much of their output or services to foreigners. This is economically the same as exporting.
2. Three tanning firms also process and export casings, but have been counted under "leather and tanning".
3. The output of this plant is almost entirely for the raisin export industry. Thus, the output is exported.
4. Some potential exists for conversion to cotton textile production for export.
5. The largest of these, AHU, exports some processed skins as well.

Source: Investment Committee of Afghanistan plants, based on relatively conservative estimates. By the middle of 1974, they employed some 2,400 workers and had in operation close to 1,100 looms. Their combined total capacity, working full time, and under ideal conditions, would be between 22-25 million meters a year. Actually it was about thirty percent less. In national economic terms, the elimination of rayon textile imports, because of local manufacturing, saved the nation about $2 million in foreign exchange in 1972.

Although some of these textile mills are very small and inefficient, the fact remains that they measurably increased the number of looms in the country which is still short of meeting both the current domestic and export demand. By combining forces, they could establish a third major textile industry complex in addition to the larger mills already established. By exporting cotton grey cloth instead of exporting ginned cotton or cotton yarn, Afghanistan could easily increase its foreign exchange receipts by about $10 million a year. The small private mills could either switch to cotton or else continue to produce rayon fabrics, leaving the larger mills the possibility of concentrating on cotton rather than producing rayon cloth for domestic consumption. It would seem that sufficient flexibility exists to achieve the desirable result of increasing exports.

The tanning and leather industry presents a similar case. In 1973, there were some ten[1] firms engaged in this activity operating under the protection of the 1967 Private Investment Law and representing an investment of some Afs. 120[2] million. Together they employed about 500[2] workers. What seems significant is that tanning and leather processing in Afghanistan is now beginning to develop into a national industry. Due to the world-wide leather shortage, the private investors have all the markets they can handle. If they are able to meet the proper standards to respond to this demand, leather processing could well develop into a new Afghan export industry of major importance. This potential is corroborated by the fact that recently a large U.S. leather firm joined hands with an Afghan tannery to produce quality skins for export.

---

1. Including AHU Shoe which also produces leather shoes and is usually counted in that category.

2. Including the portion of AHU Shoe devoted to tanning.

Although currently the additional foreign exchange earned by exporting semi-processed skins instead of raw hides is relatively small, the potential benefits from the further expansion of this industry are quite large. Based on an annual export of some 3.5 million of semi-processed skins, 200,000 leather jackets (pustinchas), 300,000 hides and some 50,000 properly tanned furs, and including the savings derived from the local utilization of wool and hair, annual foreign exchange earnings could easily reach $2 million a year.

The raisin industry provides an even more spectacular success story. Only a few years ago, Afghan raisins could only be sold abroad at a very low price, mostly to the Socialist Bloc countries and mainland China because the product was mixed with dirt from crude sun drying. With the establishment of nine private modern raisin processing factories, about two-thirds of the Afghan raisins are now exported in processed form to the world market. Considering that total export earnings from raisins recently were coming to about $17 million a year and that, except for certain specialized markets, proper processing more than doubles the value of the product, the implications of the value added by industrial processing are clear. An added plus is the fact that raisin exports help the farmer cooperatives growing raisins so that the raisin cleaning factories are making a direct contribution to the increase and better distribution of rural income.

As time goes by, the macro-economic impact from these new industries is likely to become more and more visible, particularly in those cases where the new industries are a natural such as leather, raisins, dried fruit and the production of handicrafts. In many areas the surface has barely been scratched. For instance, Afghanistan still imports talcum powder while exporting the raw material for crushing and pulverizing in nearby countries.

Although precise data on the capital-output ratio and value added are not obtainable in Afghanistan, it is obvious that the return on an overall private investment of some $15 million equivalent with a substantial export component, should be considerable, although probably not as good as it should be. Statistical evidence suggests that the value added per man year of employment comes to about one-third of the original investment per job.[1] However, the value added is likely to improve when capacity utilization increases, as it will.

---

1. See: A Survey of Projects Operating in 1349, prepared by the Investment Advisory Center of Afghanistan, Kabul, March 1972.

Apart from these "statistical" results, there was the institutional development mentioned above resulting in the creation of five important supporting institutions. Last but not least, the development of industrial development policy with the assistance of the foreign advisers, was crucial to support a rapidly growing private industrial sector. To give only one example, once the five-year duty-free period under the Law ran out, the investors found themselves faced with a tariff structure which historically placed a lower duty on the finished product than on the raw material required to manufacture it locally. As a result, a new tariff had to be developed, making it development rather than revenue oriented. A great deal of effort was expended on this effort and, at the moment, it seems to be bearing fruit.

VII. SOCIO-POLITICAL BENEFITS

Less tangible are the socio-political benefits which are important because of their nation building implications; yet, they are clearly present inasmuch as industrial development of the type described can be important in bringing about much needed changes in a traditional society. The need for this is obvious for a lack of socio-political development constitutes one of the main reasons why Afghanistan, in spite of substantial economic assistance over a period of many years, today still continues to be an unhappy member of the Club of the Twenty-Five Least Developed Nations.

Unfortunately, because of the lack of electric power in other areas, the program's impact to date has been concentrated mainly in the Kabul area. Yet, in a city of some 500,000 people, the socio-economic impact of these new industrial establishments giving employment to some 7,000 workers or about twenty percent of the industrial labor force, becomes quite noticeable, both from a point of view of the visible skyline and because of its emergence as a political force. The case will become much more dramatic when the number of new private industrial establishments reaches around two-hundred with a payroll of some 15,000 which may still be several years off. Finally, if one accepts the thesis that, above all, development is a state of mind, the following facts would seem to be highly significant:

—Five years ago, an investor with sizeable capital would have lived in constant fear of a government official earning Afs. 2,500 a month, because the official could effectively close down his factory whereas in 1973, the government was asking the Afghan Association of Private Industries for cooperation and understanding in the solution of difficult national problems.

—Some seven-thousand new industrial workers, most of them with a greater or lesser degree of literacy, are bound to have a political impact at some time, whether or not they are organized in a labor union or act merely in a group spirit. The fact that the government is well aware of this then becomes a constraint on the freewheeling of a feudal society.

—Private industry jobs are developing an environment for the possibility of promotion by merit which is a totally new concept in a society based in nepotism, with few rewards and almost no punishment.

—Spectacular progress was made in eliminating policies which discriminate against the small firm, as well as in the employment of women.

VIII. PROFILE OF THE INVESTORS

Since on two occasions, once during the early thirties and again during the 1960's, the private sector demonstrated a capability of contributing significantly to the country's economic development, perhaps a few words are in order on the nature of the Afghan entrepreneur since here again, there exists some confusion.

An early attempt to study the Afghan private entrepreneurs was made by Roy Feldman based on the use of several U.S. psychological tests adapted to Afghan conditions.[1] Among other things, Feldman tried to analyze thought content and to relate structure of thought and thought flexibility to entrepreneurial motivation and success.

On the basis of his investigation, Feldman reached the conclusion "that the men participating in the Private Investment Law benefits may be

1. Feldman, Roy E. Thought Flexibility and Entrepreneurial Motivation among "Businessmen", Potential Businessmen and Government Workers in Afghanistan. Kabul, February 1970, (mimeographed).

doing so for a variety of reasons not related to the kind of motive that is correlated with business success in other countries. It also raises some questions about their probable success if they do not hire managers with entrepreneurial motivation". However, Feldman's study was carried out when the 1967 private sector development had barely started. Hence, his conclusions were evidently somewhat premature. From what was said above, it would seem that the Afghan private investors operating under the Investment Law clearly met most of the prerequisites stated in the literature.[1] They even did so in the face of exceptional difficulties such as limited availability of industrial credit during most of the period described.

In trying to answer the question: Who are the new investors and what really motivated them, the writer conducted a number of conversations in depth with most of the investors from which the following general conclusions can be drawn. Almost all of the investors originated in the bazaar and most of them were still holding on to their bazaar trade while also managing their factories. Only a few had a university education and they persuaded their parents, usually bazaar merchants, to invest. A few of the investors lacked any formal education but the majority did finish high school. Their age varied from the early thirties to the late fifties.

As to their motives to become an investor, a variety of reasons were given although obviously this type of information, obtained largely by personal conversation, is not particularly reliable. Several investors stated that they became interested in local manufacturing because they felt that in time the government would restrict imports, so that the handwriting was clearly on the wall. Furthermore, the early success of some of their competitors led to a "follow the leader mentality".

Others indicated that they had become interested, as importers, by their exposure to factories abroad, which made it worthwhile to start their own factory in Afghanistan. One investor credited the Afghan Embassy in Karachi for convincing him that getting into domestic manufacturing was good business.

Making a profit was obviously a primary motive, although almost all of the investors expressed a desire "to help the country

---

1. See: Papanek, Gustave, F. The Development of Entrepreneurship and Economic Development, edited by Peter Kilby, New York, the Free Press, 1971, pp. 317-318.

industrialize". Yet, it would seem that for some pecuniary reasons were not the only motive. Apparently "having a factory" provided them with a degree of prestige particularly in the case of minority groups.

A number of the investors felt that having a factory and providing a lot of employment tended to protect their capital inasmuch as the government was likely to support them on account of its interest in reducing the current high rate of unemployment. By contrast investment in land was considered to be more risky because of possible government intervention and land reform.

Asked if they could not have made their money more conveniently by bazaar lending at a rate of some twenty-five percent a year, several investors replied that this was not all that easy because this high interest rate was offset by frequent defaults, which considerably reduced the rate of return over a certain period of time. A lot of bazaar "lending" consisted merely of "sharing the risk" in what essentially were commercial transactions. If this had to be the case, they preferred to do so in their own businesses where they would at least have full control.

What emerges from the discussions is that by and large, the investors consist of people who came out of the bazaar, with a keen sense for markets, but with little or no managerial ability. Another group represents certain young intellectuals, some of whom recently broadened their experience by working for the government, either in the ministries or in the large publicly financed infrastructural development projects. They now look for more money and a challenge to accomplish something beyond the traditional pattern followed by most young people, i.e., seeking only government service. The risks taken by some of these people are considerable and a large part of these risks are related not so much to production and local marketing problems, but rather to managerial weaknesses and the frequently unpredictable role of the government.

Although it is sometimes difficult to determine "ethnic background" in Afghanistan, it would seem that the ethnic composition of the group of private investors operating under the protection of the 1967 Private Investment Law confirms Naegler's findings that about seventy percent of the Afghan entrepreneurs are of non-Pushtun origin.[1] Most of the investors

1. Naegler, Horst. Privatinitiative beim Industrieaufbau in Afghanistan, Bertelsmann Universitäts Verlag, Düsseldorf, 1971, pp. 84-85.

under the program appeared to be Tajiks, Uzbaks, Turkomen and other minority groups with only a sprinkling of representatives from the Pushtun establishment.

IX. CRITICAL COMMENT - THE ECONOMIC ARGUMENTS

Superficial observers[1] have questioned the desirability and viability of the private investment program as conducted in Afghanistan in "monetarist" terms as misallocating resources through import substitution, capital intensive instead of labor intensive projects, artificially low interest rates, location of enterprises near their major markets, and so forth. In effect, the criticism recommends a "laissez-faire" or non-interference approach to project selection and finance, and refraining from providing fiscal incentives.

Ironically, except for the incentives provided by the 1967 Private Investment Law, the program started out largely on a "laissez-faire basis", and even today its approach is more liberal than that of many developing countries, since as pointed out above, operating under the 1967 Private Investment Law constitutes an option and not a mandate.

What the critics overlooked is that favorable developments in the private industrial sector as sketched were due in a substantial part to the removal of bureaucratic obstacles. As a next step, they applied a text book approach assuming the existence of capital intensive private industry as well as low interest rates which is not in accordance with the facts as a visit to a few of the new industrial establishments will easily demonstrate. More specifically, the private enterprise program in Afghanistan has resulted in generating employment for some 7,000[2] workers at a capital cost of approximately U.S. $2,000 per job.

If this is a capital intensive result, then one must adopt a very special definition of capital intensivity. Further, if commercial rates of interest, which were universally applicable to the private enterprise

---

1. See: Shaw, E. S. "Resource Mobilization in Afghanistan", Financial Development Committee, Report No. R/038, Kabul, 1973, (mimeographed).

2. At the end of 1973, the estimated actual number of workers employed in ninety-four industrial establishments actually operating under the Law was between 5,000 and 6,000, as a result of a fall-off in employment in several of the larger projects and temporary closures in others. The potential employment at full capacity is probably over 10,000, representing one job for every $1,500 in investment. As pointed out before, at this writing total employment is about 7,000.

projects, are a subsidy to capital investment and represent unjustified favoring of capital over labor, then again a very special definition of subsidy must be applied. Also, to criticize the location of enterprises near their major markets and best infrastructure is equivalent to challenging the general prerequisite of financial viability in industry and enterprise. Alternatively, it is to say that projects must be so small that village markets will suffice. Very little modern technology can operate successfully at a scale small enough to match such infinitesimal markets.

"Import substitution" has become a popular cliche to oppose most fiscally promoted projects. The indiscriminate use of this phrase, as applied in the present context, is unjustified. It is quite simple to identify three distinct types of imports substitution; one is generally unfavorable and the other two are favorable.

A generally unfavorable case is where all the raw materials must be imported and where future development of domestic resources are unlikely, in the reasonable future, to be developed and thus replace the imported raw materials. In such cases, the incentives needed to encourage the industry may outweigh the benefits, unless the tranport cost of the raw materials is significantly lower than the finished goods or if the nation is endowed with unusually productive human resources (Japan).

A more favorable situation is where most raw materials are initially imported but where there are opportunities for development of local raw materials sources. The import substituting industry creates the market necessary to exploit these sources.

A third extremely favorable case is one in which the finished goods are being imported but where the raw material can be economically obtained within the country itself as the basis for a domestic industry. Sugar is a good example of this third case. The desire to promote agriculture and the potential for raising sugar beets has been proven in Afghanistan and it only needs to be expanded. To oppose such development on the grounds that a sugar factory is an effort in "import substitution" to replace sugar being presently imported is extremely primitive. Vegetable oils are another case three example.

It can also be argued that most of the new industries in Afghanistan are largely based on the reduction of transportation cost over considerable distances while making items "close to the human body", i.e., products which almost any country normally tends to produce domestically rather than import. Further, while the rayon textile industry has been singled out for criticism, we have already pointed out its potential for conversion to cotton provided enough raw cotton will be produced in Afghanistan. Since such a development is extremely likely, the plant investment could easily be converted into an export oriented rather than an import substitution oriented one.

Critics of import substitution who do not distinguish between these three cases are guilty of demagoguery at the worst or of being misinformed at the best. Conversely, where case one can be demonstrated and no social need, as in the pharmaceutical projects, is involved, the criticism may be partly justified. Under the Private Enterprise Program, efforts have been made for some time to develop differential incentives which would minimize the incentives provided to such enterprises.

X. PROJECT INPUTS AND CAUSALITY

All through the Private Enterprise Project (#087 and #116), the Afghan private investors obviously made the largest contribution because they put their own money on the line, without which nothing would have happened. As pointed out, this contribution came to roughly $15 million equivalent.

The government of Afghanistan provided more nominal inputs—although sizable in terms of the Afghan budget—in the form of office space and support, office staff and counterparts, of which there were about twenty nine when the project ended. Of course, the intangible Afghan input so crucial to success was the early Afghan decision backed up by dedicated supporters, to bring about a major policy change in favor of the development of the private industrial sector.

Apart from AID, bilateral donors, the Peace Corps and the Asia Foundation provided technical assistance of the type described earlier while the UNDP/IBRD made a very substantial contribution to the establishment of the Industrial Development Bank after U.S. technical assistance had laid the groundwork for this to happen (i.e., the catalytic effect). Likewise, UNIDO made a valuable contribution in leather processing.

In monetary terms, the AID contribution over the total project period was roughly $1.6 million, almost all of which consisted of U.S. contract technical assistance with a minor input in commodities and the training of participants abroad. Most of the training provided consisted of on the job training.

As regards "causality", i.e., to what extent U.S. technical assistance was crucial to the project's ultimate success, the following observations would appear to be relevant.

In the case of the Afghan Karakul Institute, a new concept was introduced with a heavy reliance on cooperative aspects. Considering Afghan conditions, it is hard to see how such a sub-project could have materialized without technical assistance from abroad, not to mention the technical assistance needed to keep it on the track.

In the case of the development of the private industrial sector, local opinion in Afghanistan is virtually unanimous that the described results would never have been achieved without the help of foreign advisers because:

—While the domestic investors had the money and the will, initially they lacked the ability to properly analyze and develop their projects.

—Most of the foreign investors would not have had the patience to persevere without foreign experts' guidance through the maze of the Afghan bureaucracy which, as a result of the advisers' influence, was streamlined considerably in the process. The Mission can produce substantial witnesses to testify to this effect.

—Prior to 1967, private sector experience was non-existent within the government structure. Hence, foreign advisers were essential to guide the respective officials in dealing with the creation of a proper investment climate, including warding off attacks from those who were antagonistic to the program for reasons of ideology or excessive conservatism.

—Because of Afghanistan's geographic isolation, and general backwardness, private industrial development could not have succeeded without a modest amount of industrial extension support.

In monetary terms, the AID contribution over the total project period was roughly $1.6 million, almost all of which consisted of U. S. contract technical assistance with a minor input in commodities and the training of participants abroad. Most of the training provided consisted of on the job training.

As regards "causality", i.e., to what extent U.S. technical assistance was crucial to the project's ultimate success, the following observations would appear to be relevant.

In the case of the Afghan Karakul Institute, a new concept was introduced with a heavy reliance on cooperative aspects. Considering Afghan conditions, it is hard to see how such a sub-project could have materialized without technical assistance from abroad, not to mention the technical assistance needed to keep it on the track.

In the case of the development of the private industrial sector, local opinion in Afghanistan is virtually unanimous that the described results would never have been achieved without the help of foreign advisers because:

—While the domestic investors had the money and the will, initially they lacked the ability to properly analyze and develop their projects.

—Most of the foreign investors would not have had the patience to persevere without foreign experts' guidance through the maze of the Afghan bureaucracy which, as a result of the advisers' influence, was streamlined considerably in the process. The Mission can produce substantial witnesses to testify to this effect.

—Prior to 1967, private sector experience was non-existent within the government structure. Hence, foreign advisers were essential to guide the respective officials in dealing with the creation of a proper investment climate, including warding off attacks from those who were antagonistic to the program for reasons of ideology or excessive conservatism.

—Because of Afghanistan's geographic isolation, and general backwardness, private industrial development could not have succeeded without a modest amount of industrial extension support.

—Perhaps most important of all, the successful execution of the program required the presence of high level generalists in support of the Afghan staff engaged in day-to-day operations. New concepts had to be introduced and once accepted, the details for their implementation had to be worked out, frequently in great detail as was the case in tariff modification.

Frequently, an educational effort was required in explaining complicated industrial problems to Afghan policy makers. Coordination aspects with public sector industry had to be considered as well as the establishment of proper criteria for industrial priorities within the confines of an acceptable investment climate, once the government had decided to travel this route.

In the case of tourism, causality is much harder to establish since here the USAID assistance consisted of a one-shot technical assistance approach in the form of a report covering an area in which the Afghans themselves were already making progress.

XI. THE ROLE OF THE CONTRACTORS

All through the project, the role of the contractors was not an easy one since they had to please four different "masters", at times with greatly different interests.

The easiest to please were the investors who merely needed competent advice which the U.S. contract personnel was able to provide. However, this advice covered a very wide range of activities requiring an almost encyclopedic industrial knowledge of broadly based generalists with a substantial experience in working in a difficult environment who at the same time had a more detailed specific knowledge about certain technical areas. While backstopping services were available and provided for in the contract, it was only in unusual cases that this avenue was resorted to because of the time element involved.

Next, there was the government of Afghanistan in the form of the respective Ministries—altogether there were three which in succession sponsored the project—whose interest at times conflicted with that of the investors, apart from the fact that they, i.e., the Ministries, had cut out a task for themselves which by and large they were unable to handle. Obviously, this placed a heavy burden on the U.S. contract advisers whose tact and patience in working out compromise solutions was often taxed to the limit.

Even in the absence of "policy disputes" and the need to engage in some sort of a battle, clearcut policy implementation still called for a sizable input on the part of the advisers for the simple reason that in Afghanistan the government's administrative structure was so deficient. Taking a typical work day of a U.S. contract adviser would be most enlightening because of the variety of problems which had to be tackled.

Considerable tact was required in "integrating" the other bilateral advisers--mostly of a junior vintage--into the project which provided additional leverage to it. Yet, these "coordination meetings" frequently at the homes of the various advisers, paid of handsomely in the form of good relations and an adequate division of labor.

Then there was the USAID Mission and the Private Enterprise Division of USAID which had to be catered to in the form o. numerous reports as well as a number of "special jobs", some of which went well beyond the call of duty. At times, additional work resulted when the Division or the Mission questioned the contractor's approach in certain cases which in turn required inputs in terms of "justification".

Finally, there was AID/Washington which took an unusual interest in the formulation of the PROP which established broad guidelines for the execution of the project.Frequently these were difficult to reconcile with the day-to-day views and operations of the government. To give only one example, AID/Washington's original concept was that the role of the Investment Committee in approving projects should gradually be diminished so as to eliminate the institution altogether which was in direct conflict with the idea of the government which, as time went by, became more interested in establishing "priorities" and thus a tighter control of the approval process. There were internal problems as well in the form of AID/Washington approvals to go ahead with certain parts of the project which were subsequently reversed.

Yet, the two contract teams bore this burden cheerfully and they never lost their cool. Both teams consisted of very high level professionals and when their time came to phase out, there were strong requests from the government of Afghanistan for the continuation of their services.

XII. PROJECT TERMINATION

In terms of bureaucratic ups and downs, this project has , in the past five years, been like the proverbial cat with the nine lives. The ninth life is about to end.

Towards the end of Phase One, i.e., around mid-1969, AID/ Washington reached a decision that the project was to be terminated. Essentially, this was a defensible position because the project was doing well, and thus would be ending on an up-beat, even if the whole job was not yet completed.

However, there was considerable opposition in Kabul to the project's termination. Reportedly, the highest level of the government of Afghanistan showed much interest in the employment aspects of the Private Enterprise Program, even if these constituted only a small part of the project's total impact. Furthermore, over several years, the incumbent American Ambassador had developed a strong interest in the program with the result that a number of decisions and actions regarding it were concurred in at his level and he lent his support to it on key occasions. Two AID Mission Directors also felt strongly that the project was effective in addressing Afghanistan's more urgent needs.

As a result of a further exchange of views between AID and USAID, it was finally decided that the specific project (087) would be terminated but would be replaced by another project in the industrial development area. This latter one would not concentrate so much on promotion but rather on industrial policy development and institution building, although still continuing enough assistance in industry promotion to keep the basic program going. As a result of this decision, a new Non-Capital Development Project Proposal (PROP) was prepared by the Mission, in close co-ordination with AID/Washington. Several high level AID/Washington officials visited Kabul in mid-1970 to establish guidelines for this new approach.

The final PROP document, dated August 11, 1970, was approved by AID/Washington on October 20, 1970 and became the basis for a Request for Proposals (RFP) dated December 21, 1970. A large number of potential contractors responded, and Checchi and Company was selected as the contractor for the Second Phase (Project 116). The RFP itself received favorable comments from the various bidding contractors as an unusually well-prepared document.

The PROP, in a number of places, envisaged technical assistance in this area for a period of five years.[1] However, AID/Washington comments on the PROP, approving the document, proposed a system of "joint AID/USAID reviews to consider changes in staffing, project focus and approach, as the project progresses."[2] Therefore, AID/Washington would not make any specific commitment regarding future staffing.

Several project reviews were carried out. At the Mission level, after the Contractor had submitted a Revised Work Plan in May 1972, an elaborate review of the project was conducted on July 19, 1972 with high level Afghan officials, including the Minister of Commerce, and representatives of the other contributing donor nations and UNIDO. Their comments were generally quite favorable.

In accordance with AID/Washington's above-mentioned system of reviews, a joint USAID-AID/Washington project review was scheduled for January 1973, or after the contract had been in operation for about 20 months. To facilitate such a review, the Mission submitted to AID/Washington its own review of the project and recommendations in a rather elaborate document.[3] This document recommended the extension of the Checchi contract at the three-man level, substituting a full-time research adviser for the one "trouble shooting" investment adviser (ombudsman), who was scheduled for phase out after the first two years. It was reported that this document was well received in AID/Washington. It was further indicated that because of the completeness of the Mission's review, no large scale joint review would be necessary.

---

1. See: USAID Non-Capital Project Paper dated 8/11/70, pp. 18, 19, 26.

2. See: AIDTO A-219 dated October 23, 1970. PROP Approval. Industrial Development Project No. 306-11-910-116.

3. See: Afghanistan. The Private Enterprise Program, prepared by USAID/A in connection with Review of Contract NESA-526, Checchi & Co., Kabul, November 15, 1972.

However, AID/Washington was unwilling to accept the new research position without further consideration. An exchange of cables took place and in March 1973, Mr. Jonathan McCabe, ASIA/CD, made an extended visit to Afghanistan, for general project orientation and specifically to investigate this research question. However, Mr. McCabe's visit turned out to be concerned with the overall merits and demerits of the project. While admitting that the American contribution to Afghan private industrialization was significant, Mr. McCabe on several occasions voiced the opinion that the program was somewhat out-dated because while having been engaged in this type of activity in the past, AID was not doing this any more. As the Ambassador pointed out in this connection, this seemed to overlook the fact that at different stages of development, there are needs for different types of projects. However, Mr. McCabe's final conclusions dated April 9, 1973—although critical of the IAC—were as follows:

> "Within the framework of U.S. foreign assistance, the Mission program directed to private sector development can and should be supported; the American contribution to Afghan private industrialization is significant. However, it is my view that recognition of the dimension of the task to be done, the preparedness of bilateral and multinational donors to work in tandem toward project goals, and the established experience of the U.S. contractor performing on behalf of the USAID, provide the U.S. with a unique opportunity to contribute more effectively and on a scale broader than that currently being realized."[1]

Mr. McCabe stated further that in order to enable the Agency to accomplish the objectives of the project, a visit by Mr. Vincent Checchi—the Contractor Principal—to Kabul was essential for the proper evaluation of the research aspect of the project. Settlement of the research issue, and final approval of the contract extension, was to be delayed pending this visit. An extended illness of Mr. Checchi prevented this visit from taking place. Therefore, the extension was agreed to (in June) with the full time research adviser included (in August), with the extension carried out in two amendments both eventually dated July 1, 1973. The extension was to

---

1. Jonathan R. McCabe. Industrial Development Project 116, USAID Kabul, Afghanistan. Observations and Recommendations. Kabul, April 9, 1973.

September 15, 1974, one year from the date of the return of the last team member from home leave.

With the approval of the new AID legislation, the Mission decided that the private investment project did not fit into any of the three priority categories of AID activity. Since the Mission wanted to move its program as quickly as possible into these priority areas, it was decided, in close consultation with AID/Washington, to end the private investment program. Accordingly, the Private Enterprise Division will be closed in July 1974 with the departure of the Division Chief, and the Checchi contract will not be renewed again after September 15. The remaining direct hire industrial engineer will be shifted to the Capital Development/Engineering Division.

XIII. CONCLUSION

In conclusion, it would seem that this report bears out our thesis that a relatively small amount of technical assistance in the area of private industrial development, at times, can provide substantial benefits in relation to its cost. Particularly, if we compare the cost of the Private Enterprise Project with the vast amount of foreign aid provided to Afghanistan, with a technical assistance component of some $20 million a year alone, and if we compare the results of this effort with that of the overall program, it would appear that such a comparison is impressive.[1]

Another point is that if our objective is to raise rural income and bring about a more equitable distribution of such income, agribusiness tends to provide the additional leverage in raising farmer income, because obviously industrial processing not only helps in creating a market for his produce but it also adds to the final value of the product. If we are merely helping the poorest farmers to raise more food for their families, the effort would get dangerously close to carrying out a relief program, since no savings would result.

For this reason, we believe that programs of this type are well suited to meet the criteria of the new AID legislation insofar as the promotion of agriculture in a very undeveloped setting is concerned.

---

1. For more details on external aid to Afghanistan see Annex F of the Appendix.

APPENDIX

ANNEX A

THE ROLE OF THE PRIVATE SECTOR IN THE EARLY DEVELOPMENT OF THE AFGHAN ECONOMY

After the fall of King Amanullah and the reign of terror of the brigand "King" Habibullah Ghazi (the so-called Bacha-i-Saqao or son of the water carrier), the Afghan economy was in shambles. Sirdar Ikbal Ali Shah describes the situation in the following terms:

> "The brigand's rule was hardly a month old when appalling atrocities were started at the capital by his highlander ruffians. Money was extorted from all and sundry, houses were searched ostensibly to recover arms, but really to discover buried gold and silver. The new King knew that if he were to remain on the throne, then he must continue to pay his robber followers five times as much as before. No one would pay land tax, or toll, for everywhere the fire of revolution still blazed high. At last he devised a comprehensive scheme of wholesale extortion, selecting men of his type, and distributing them throughout the country around Kabul. In each district they were to prepare a careful report of the wealth of citizens who were compelled at the peril of their life's blood to produce every penny that they possessed. Every well-to-do Afghan was bled white, so far as any cash was concerned. Paper money was printed, but no one would accept it. Maddened by the demand for money, the brigand resorted to more diabolical methods of torturing people and extorted every sou that they had or could borrow. The distress was unimaginable, people's noses and ears were cut if they did not produce money."[1]

Thus, when King Nadir Shah took over, his economic development options were quite limited, almost nil. However, being intimately familiar

---

1. Shah, Sirdar Ikbal Ali. Modern Afghanistan. London, Sampson, Low, Marston and Co. Ltd. 1938, p. 133.

with the country and its resources, he knew how to tap what little was available. Although the country was still ninety-five percent illiterate, it had a few traders made of entrepreneurial timber who were capable of galvanizing the private sector. The King knew how to find them.[1]

There were people like Abdul Aziz Londoni who had bought karakul skins in Tashkent and Bukhara when nobody wanted them except the British. Having laid the basis for Afghanistan's karakul exports to England, "Londoni" next turned to exporting Afghan cotton to Russia for which he was paid half in gold and half in cotton cloth, an excellent compensation. There were others like Sher Khan Nashir Ghilzai and Abdul Majid Zabuli.

As a first move in obtaining support from the commercial sector, the King decided to call on Mr. Zabuli. Since during the next fifteen years, Mr. Zabuli was to play a most important and perhaps somewhat controversial role in the economic development of the country, a few biographic details about him would seem to be in order. Mr. Abdul Majid was born in Kandahar province shortly before the turn of the century. The name Zabuli was added later. When he was about five years old, the family moved to Herat. In Herat Mr. Zabuli worked first in the family's wool export business. In 1918, when his father died, Mr. Zabuli started trading in the Herat-Maimana area. Shortly afterwards he also started trading in the southern part of Russia. A few years later, he associated himself with some wealthy Herati traders such as Messrs. Niaz, Mukhtarzada and Aimaq, to promote Afghan trade with Russia, following King Amanullah's decision to have closer relations with the U.S.S.R.

In 1925, Mr. Zabuli shifted his base of operations to Moscow as the representative of the above mentioned group where he met Mr. Londoni. He remained in Russia until 1930 when economic conditions in the Soviet Union became increasingly difficult as a result of Russia's New Economic Policy (NEP). During his stay in the Soviet Union, Mr. Zabuli learned first hand about economic planning in the U.S.S.R. which led him to develop his own ideas about economic development in a mixed, private-public sector setting. While in the U.S.S.R. he married his present wife. His two sons from this marriage are both working abroad in prominent positions in the scientific world. Mr. Zabuli also had a daughter and a son from a previous marriage to an Afghan lady. This son, Abdul Rahim Majid, is presently a leading businessman in Kabul.

---

1. Dupree, Louis. Afghanistan. Princeton, N. J. Princeton University Press, 1973, p. 471 ff.

Almost immediately after Nadir Shah took over from the "Bacha", the Prime Minister, Mr. Hashim Khan, who had become acquainted with Mr. Zabuli when he was Ambassador in Moscow and who for many years after Nadir's assassination in 1933 was to direct the Afghan economy, prevailed on Mr. Zabuli to come to Kabul to help in the country's rehabilitation effort. The task before them was huge. Afghanistan's limited foreign trade was completely disrupted and internal trade was at a standstill.

Mr. Zabuli who was in Berlin at the time of the 1929 crisis in Afghanistan arrived about four weeks after the conquest of Kabul to size up the situation. Although he had no intention to stay, the King prevailed upon Mr. Zabuli to use his talents for the good of the country. His Majesty indicated that a new order had to be established so that people could again support themselves because all the wealthy people had lost their capital and the merchants had lost their hopes and confidence. The King felt that at the time there was no one among the Afghan merchants except Mr. Zabuli who had the capability of helping to establish a new economic order for the government. Most of the export and import trade of the country was in the hands of foreign merchants, mostly Hindus and Jews who made exorbitant profits, and only small businesses belonged to the Afghans. Thus, the King directed Mr. Zabuli to find "a way to take these businesses away from these foreigners and give them to our people."[1] However, what the King really wanted from Mr. Zabuli was an economic plan to lead the country out of its medieval existence.

Mr. Zabuli stayed in Kabul from November 1929 to February 1930 to draw up Afghanistan's first plan for economic development. One of the main objectives of this plan was attracting private investment as well as the development of trade, commerce and industry. In his plan, Mr. Zabuli was farsighted in recommending that the development effort be concentrated north of the Hindu Kush which had the most promising agricultural resources and the best trained people.

From a political point of view, this was somewhat controversial since most of the people in the northeast belonged to minority groups such as Uzbaks and Turkomen, some of whom had come to Afghanistan during and after the Russian revolution. Even worse in terms of Pushtun politics, he particularly counseled against large scale economic development of the

1. Bank-i-Melli Afghan. Report of Operations for the Year 1344 by the Executive Board, (in Dari), Kabul, 1965, pp. 23-26.

south and was able to spot some of the deficiencies of the Helmand Valley Project which subsequently were to cause Afghanistan so much trouble. After ten days of deliberation, his plan was brought to the Cabinet which approved it without change.

The main features of Mr. Zabuli's plan which was based in part on some of the ideas already discussed during the reign of Amanullah were as follows: (1) the establishment of a national bank, (2) large scale agricultural development north of the Hindu Kush mountain range, (3) connecting the north and the south by a much shorter highway, so that transportation of commodities could be handled rapidly by truck, (4) introducing the possibility of forming an international trade corporation and (5) centralizing all foreign trade activities in Kabul.

The latter point was very significant because prior to Mr. Zabuli's involvement, Afghan export products were mostly handled from Peshawar and Meshed from where they found their way into the world market via international traders who pocketed most of the profits. The Bank project had to be shelved, however, since the King was afraid of opposition from the religious leaders because of the implications of charging interest.

After the approval of his plan, Mr. Zabuli left while transferring his business from Moscow to Berlin where he kept in close touch with Sardar Mohammad Aziz, one of the King's four "brothers",[1] who was then Afghan Ambassador to Germany and who was subsequently murdered in Berlin. Mr. Zabuli was recalled again in 1931 when the execution of his plan had run into difficulties partly because of the lack of credit facilities. While the agricultural sector was doing reasonably well, trade and industry were in trouble largely because of a lack of credit facilities.

In the light of almost unsurmountable difficulties, Mr. Zabuli had little interest in re-establishing residence in Afghanistan and to give up his profitable business in Germany. However, the King, citing his own example of rising from his sick bed in France to throw out the Bacha, prevailed on Mr. Zabuli to stay. Mr. Zabuli reluctantly agreed but he was able to wrestle one important concession from the King, namely to revive Amanullah's old scheme of establishing a national bank. In the light of Nadir Shah's bending

---

1. It is seldom mentioned that King Nadir Shah and his "four brothers" were from different mothers.

over backwards towards the religious leaders, this was a most important concession; yet the King did grant it.

Next, Mr. Zabuli had to make his peace with religious leaders. He did this by obtaining a statement that while Islam prohibited the charging of interest, there was no such prohibition against the making of a profit. Since obviously Zabuli's scheme was to disguise interest under the mantle of profits, he was careful in not calling the new institution a bank but rather a "Joint Stock Company".

As gradually opposition to his scheme relaxed, he was able, in 1933, to call the new institution by its real name of Bank-i-Melli Afghan, or Afghan National Bank. During the next twenty years, this Bank was to become the cornerstone of Afghanistan's economic development in a way which may be best described as economic development out of profits.

King Nadir Shah was assassinated on November 8, 1933 by a student for what appears to be both personal and political motives. He was succeeded by his nineteen year old son, Zahir Shah but the real power remained in the hands of his three "uncles", Hashim Khan, the Prime Minister, Shah Mahmud Khan and Shah Wali Khan.

Hashim Khan who was in control of the country for a number of years, has sometimes been called "the businessman of the Musahiban Family". He emphasized economic development through the expansion of the private sector while at the same time stressing the need for modern education. In the process, he accumulated a sizable fortune. He was a hard worker who never married after his desire to marry Amanullah's sister had been thwarted. After Mohammad Aziz's assassination in Berlin, he took care of his sons, Naim and Daud, the latter of whom in 1973 abolished the Monarchy and established the Republic.

To develop the country's economy rapidly on a pay as you go basis, Hashim Khan gave important concessions to the Bank-i-Melli which Abdul Majid Zabuli had conceived from the start as a potential holding company for a number of agricultural and industrial ventures. Thus, the development of private industry in Afghanistan is closely associated with the person of Mr. Abdul Majid Zabuli whose early activities in redirecting the Afghan economy have already been described above in connection with the country's "first plan for economic development". In a way, he is almost a legendary figure in Afghanistan since he was the first entrepreneur-industrialist of note to arise in the midst of a class of small merchants.

As the country's first economic Czar—he was Minister of National Economy from the late 1930's until 1951, while managing to reside in Switzerland during the war—Mr. Zabuli was able to acquire power and use it for the benefit of the country as well as for his own profitable enterprises with the distinction between the two not always clear. The interesting aspect of this development was that through its businesslike operation and a strictly observed banking secret—which Mr. Zabuli had established as a precondition for starting the bank—the latter was able to mobilize a substantial part of the private capital available in the country. Thus, a relatively large number of private investors, including some members of the Royal Family, benefitted greatly from the bank's success which in turn assured itself of broader support in conducting its affairs.

In order to get a proper perspective[1] of the Bank's contribution to the economy of Afghanistan, three major fields of activity should be singled out, as follows:

a. Trading

Initially the Bank's operations were mostly concerned with trading activities, i.e., it concentrated on organizing Afghanistan's foreign trade which heretofore had been fragmented. For this purpose, the Bank in 1935 organized three trading companies on a geographical basis, namely the Sherkate Itehadia-i-Shamali or Northern Syndicate in Mazar-i-Sharif for exporting wool and cotton; the Sherkate Itehadia-i-Herat for exporting wool and karakul skins from that area and the Sherkate Watan or Watan Company in Kandahar to export wool.

The main purpose of these companies was to export products from the various regions to the Soviet Union in accordance with the respective trade agreements and to properly organize such trade within the country. Thus, investments in these three companies were made by the Bank-i-Melli and the traders as well as by a number of interested people in the provinces.

---

1. See: Bank-i-Melli Afghan. Report of the Board of Directors and Balance Sheet (March 21, 1957-March 20, 1958), submitted to the Annual Meeting of the Bank-i-Melli, Kabul, 1958, passim.

Apart from that, the Bank established a number of subsidiaries on a specific commodity basis such as the Karakul Company, the Cotton Company, the Wool Company, the Textile Company, the Sugar Company, the Motor Monopoly Company, the United Company of Andkhoi and Maimana, the Joinery and Lapidary Company and the Motor Service Company, all of which represented an initial investment of some Afs. 280 million. At the peak of the Bank's operation, it controlled about fifty subsidiary companies.

By establishing the Karakul Company, the Bank was able to organize the karakul trade properly for the benefit of the Afghan traders. Prior to this, most karakul skins had been exported by foreigners under the name of "Persian lambskins". The Bank excluded foreign traders from exporting karakul and created export quota for the various Afghan traders so as to eliminate the activities of middlemen. It also established proper facilities for the sorting and grading of the skins in order to safe-guard Afghanistan's reputation abroad. The result was quite impressive because by 1946, the Karakul Company had become one of Afghanistan's major corporations. Partly due to the company's promotional efforts, the volume of karakul skins exported more than tripled during the period 1933-1945. Similar goals were pursued in the establishment of the cotton and the wool companies.

The Bank also invested money in a number of other specialized export companies such as the Carpet Export Company, established in 1956 to promote the sale of Afghan oriental carpets and rugs. The Bank's contribution to the expansion of Afghanistan's foreign trade has been substantial. As its capital and reserves increased, the Bank was able to take advantage of commodity price fluctuations in the world market which again worked out to the benefit of the Afghan exporters. Prior to this, the Afghan merchants had little or no control over the prices which they were to receive for their products.

As soon as the Bank had been established, it opened an office in Berlin which was closed during World War II. After the war, it opened an office in Hamburg for the purpose of conducting Afghan trade. A similar office had been established in London in 1934. Shortly after it was founded, the Bank also opened offices in Karachi, Bombay, Peshawar and Chaman, in order to follow up on Afghanistan's exports and imports going through India as well as to serve other needs of its regular customers.

Early during World War II, the Bank established the Afghan-American Trading Company in New York for the purpose of handling the American market for Afghan products and to bring back much needed imports to Afghanistan. A Beirut office was established in 1955 for the purpose of promoting Afghan trade there after relations with Pakistan had become somewhat tense which in turn led to the suspension of trade via Pakistan.

b. Banking and Monopolies

The Bank-i-Melli was formally established in the spring of 1933 with a capital of Afs. 35 million which by 1950 had grown to Afs. 660 million. Started as a commercial bank, it soon discovered that in its foreign trade operations, it had to balance imports against exports which resulted in the Bank becoming an instrument of exchange control in 1938-39. As a result, the exporters of karakul fur were obligated to sell their foreign exchange receipts at a fixed rate to the Bank-i-Melli. Thus by requiring the traders desiring to import goods to sell a number of export products, the Bank actually stimulated the growth of a healthy foreign trade.

Prior to 1930, Afghanistan had no paper currency. The Bank-i-Melli was able to introduce it gradually but only by having at all times enough silver coins on hand which could be obtained at any time in exchange for banknotes. Once confidence in the paper money was established, the Bank was able, within three years, to take Afs. 60 million in Afghan and Iranian silver coins out of circulation.[1]

By that time, the Bank also had become a Bank of issue for the government which entrusted it with additional responsibilities such as the procurement of government orders and the management of the various government monopolies, an activity which subsequently resulted in much criticism. To understand these monopolies properly, however, it should be explained that they represented monopolistic activities which prior to 1930 were in the hands of foreigners, such as the distribution of cloth which was solely in the hands of Indian merchants and the distribution of gasoline and petroleum products which was handled out of Peshawar by Fazel and Company. Likewise, Afghanistan's vehicle imports depended on the Peshawar Northern Company which was the agent for General Motors.

---

1. At the time, the exchange rate for the Afghani was about eight Afghanis to the dollar.

Since all these companies were making exorbitant profits, the respective activities were taken over from them by the Bank-i-Melli. In other words, the Bank-i-Melli did not create the monopolies; it merely took over existing ones from private foreign traders. For instance, when the Bank-i-Melli took the General Motors agency away from Northern Company in Peshawar, the cost of cars was reduced by a substantial margin. As a by-product of this move, Afghan truckers were able to enter the transportation business which previously was mostly in the hands of Indian truckers. A similar thing happened with sugar and petroleum products, which the Bank imported against the proceeds from its exports. After a few years, the monopolies for the acquisition and distribution of sugar, gasoline and motor vehicles were turned over by the Bank to several organizations especially set up for this purpose.

In addition to its limited "Central Bank" functions, the Bank was able to establish a very competent commercial department. It introduced checks as well as other forms of commercial paper and offered facilities for making loans to traders. Because of the general confidence which it was able to generate, its deposits increased rapidly.

In 1939, the Bank-i-Melli's rudimentary Central Bank functions were transferred to a new bank, the Da Afghanistan Bank which then began to act as the fiscal agent of the Ministry of Finance, controlling Afghanistan's currency and supervising foreign exchange transactions. This Bank, the original capital of which was Afs. 120 million, was largely established with the government's original share in the Bank-i-Melli which by that time had increased many times. Consequently, from then on, the government retained only a limited participation in the Bank-i-Melli.

The transfer of some of its central banking functions to the Da Afghanistan Bank enabled the Bank-i-Melli to concentrate more on Mr. Zabuli's original concept of gradually making the Bank a holding company for anumber of industrial ventures which will be discussed below.

---

1. Bank-i-Melli Afghan. Report of Operations for the Year 1344 by the Executive Board, (in Dari), Kabul, 1965, p. 41.

c. Industrial and Agribusiness Activities

As pointed out, some of its commercial activities subsequently led to the Bank's entry in the field of industrial production and agri-business operations. For instance, after first conducting an agreement with the Soviet Union covering the exportation of a certain quantity of cotton, the Bank-i-Melli, in 1936, started cotton cultivation in Qataghan province through its "the Northern Syndicate". Consequently, 12,000 tons of cotton produced in Qataghan was exported to the Soviet Union during the late 1930's and cotton gins, tractors, oil presses and cotton seed were imported in return to lay the foundation for the development of the Afghan cotton ginning industry.

Considering the conditions prevailing at that time, Mr. Zabuli's vision and organizational talent in developing an integrated textile industry was remarkable. First, land had to be developed north of the Hindu Kush mountains, including the eradication of malaria which previously had been endemic in the Kunduz area. Good quality seed had to be imported for distribution among the farmers. Credit facilities had to be established to provide interest-free loans to carefully selected farmers. Centralized purchasing facilities and the establishment of a ginning company, today the Spinzar Company, came next which in turn led to the establishment of an oil extraction mill, a soap factory and a ceramic plant.

Prior to its entry into cotton production, the Bank-i-Melli had already laid the base for establishing in time an integrated cotton textile industry. A small textile mill and hydro-electric power plant to serve the mill were established shortly before the Second World War at Pul-i-Khumri having an annual capacity of about fifteen million meters. The Textile Company also bought from the government a small textile mill at Jabul Seraj with an annual capacity about one-million meters.

Almost simultaneously with these developments, the Bank had started to develop sugar beet production in the Baghlan area. A complete 60,000 tons sugar mill was imported from the Skoda Works in Czechoslovakia which started operating before the Second World War. Only a few years later, it supplied about one-third of the country's needs for refined sugar. A similar procedure as in the case of cotton was followed by the Sugar Company in the distribution of improved seed, granting loans to farmers, establishing farmer cooperatives, building farm to market roads, irrigation canals and bridges.

In 1937, the earlier established Watan Company of Kandahar installed cotton gins and oil presses in Mazar-i-Sharif, Taluqan, Balkh and Khanabad. The Kandahar Woolen Textile Mill was founded in 1943 with an annual capacity of some 120,000 meters of cloth while small cotton and silk industries were started in Laghman, Kabul and Herat.

As the Bank's competence in the industrial area increased, the government started to transfer some of its own industrial plants to it such as a cement factory built by King Amanullah which had never been operational. The government, likewise, permitted the transfer of two of its wool factories to the Bank in order to meet the urgent need for woolen goods during World War II. In a less desirable fashion, the Bank-i-Melli was also able to obtain control of a number of budding new industrial ventures which were subsequently integrated into its chain of activities.

As a result of its success in the textile industry, the Bank decided in 1950 to start a silk industry in Qataghan province based on imported mulberry trees from Japan. The gradual expansion of the textile industry subsequently led to the establishment of an industrial complex at Jangalak in order to supply parts for the textile mills. It also led to the Bank-i-Melli's involvement in the production and distribution of electric power. Its main power station at Sarobi was completed in 1957 to provide power for the textile industry while excess electric power was used to meet the power needs of the city of Kabul.

Finally, Mr. Zabuli's grand scheme was crowned with the building of Afghanistan's first modern cotton textile mill, the Gulbahar plant, which even today constitutes Afghanistan's major industrial show piece. Running at full capacity it can produce about eighty million meters of cotton fabrics annually. The company is owned by some 9,000 shareholders with the Bank-i-Melli holding about 42 percent of the stock.

Apart from its direct involvement in industry, the Bank-i-Melli participated in a number of other commercial and industrial ventures such as the Afghan Insurance Company, the Pushtun Fruit Company (Kandahar), the Pashtani Tejarati Bank, the Mortgage and Construction Bank, the Bus Transportation Company and the Industrial Loan Fund.

What is so interesting about the Bank-i-Melli's agribusiness complex is that contrary to Afghanistan's subsequent approach in building public sector industries often based on a minimum of market analysis, Mr. Zabuli usually started from the demand function. His main concern was finding a market first rather than concentrating his first efforts on the production side. Being a practical businessman, he knew that once the demand, i.e., the money was there, most of the difficult problems of motivating the farmers could be licked. In this way, profits became the key to development and the success of one stage led to the establishment of another. No foreign aid was ever required and technical assistance, mostly German, was all paid for in cash.

A concern for proper management was always high on Mr. Zabuli's priority list and promising Afghans were hand-picked and sent abroad for training. There was little or no room for the usual Afghan practice of nepotism and hiring friends within the Bank's empire. Even today, this Zabuli-trained elite continues to fill key positions in the Afghan economy.

Unfortunately, the principal weaknesses in the total scheme of operations were inherent in the primitive socio-economic structure of Afghanistan. Capable people were hard to find and many of the earlier activities of Mr. Zabuli would be considered a conflict of interest in today's terms. The matter was further complicated by the fact that the Zabuli empire pulled itself up by its own bootstraps. There was nobody else to turn to. Hence, most of the Bank-i-Melli's operations had to be developed vertically and in an integrated manner. Although Mr. Zabuli tried to correct this monopolistic aspect through public participation, i.e., selling shares in his commercial and industrial ventures to the public, the mere size of the operation and its influence all through the government gradually made it politically vulnerable.

In spite of being the country's leading capitalist, it is interesting to note that Mr. Zabuli always displayed a considerable degree of social conscicusness. He was by no means the "laissez faire" type par excellence and realized quite clearly that in a country like Afghanistan the government had to be somewhat interventionist. He accepted the concept of the guided-mixed economy to a considerable degree, and many of his actions reflect this trend clearly. Perhaps he even started it. For instance, to promote silk production, the Bank-i-Melli contributed to the establishment of an institute of sericulture in Kabul in 1936. Likewise, in cooperation with the Ministry of Economy, experimental farms for cotton growing were established by the Bank in northern and southern Afghanistan.

He pioneered in the Social and Welfare fields. The Bank i-Melli's original pension plan for its employees was subsequently copied by the government for its civil service. The Bank was first to introduce Health Insurance into Afghanistan. The Bank's Welfare Fund has had a substantial impact on the development of education in Afghanistan. It did provide considerable financial support to the Ministry of Education for educational development. It also contributed to the Malaria Eradication effort, the Women's Welfare Institute and the development of Mothers and Child Centers.

Yet, criticism kept mounting and in the later 1940's the opposition grew to the point where a large scale investigation was started by the Parliament regarding the Bank-i-Melli and Mr. Zabuli's activities in connection with official foreign exchange allocations. The problem, which had political overtones, was compounded by the fact that Mr. Zabuli, as well as the original group of investors in the Bank-i-Melli lacked both tribal connections and strong dynastic ties with the younger members of the Royal Family. Although acquitted of most of charges, Mr. Zabuli then left and established residence in the United States. He returned in the early 1960's to take part in the preparation of the 1964 Constitution after which he left again, to return only for short visits.

To put the criticism against Zabuli in perspective, it would seem that he faced opposition or two counts. First there was "the Establishment" which was becoming afraid of his mounting economic and political power in the areas north of the Hindu Kush. However, perhaps more important among the younger generation was the fact that because his genius for business, he had taught the Royal Family how to enrich itself beyond their wildest dreams, thus strengthening their oligarchic power. Yet, as the Royal Family needed Zabuli, Zabuli also needed the Royal Family as a prerequisite for putting his schemes to work. Both made use of each other to make money. When enough money had been made, the usefulness of Zabuli correspondingly declined in an environment where a Monarchy with essentially a bazaar merchant mentality was extremely reluctant to give any credit to any outsider for doing something of major significance in Afghanistan.

When Prime Minister Daoud took over in 1953, Afghanistan was facing a number of critical problems. Particularly among the students and the younger generation, including even some younger members of the

Royal Family, discontent was wide-spread. Part of this resentment was directed against Hashim Khan's paternalistic government and the monopolistic role which the Bank-i-Melli had been playing in the national economy. There was concern about excessive profits by the private sector although the fact that these profits were by and large used for re-investment in the country was conveniently glossed over or given little credence.

In other words, Prime Minister Daoud was faced with the legitimate need of meeting wide-spread discontent by making structural changes in the Afghan economy for the purpose of putting the country on the road towards more rapid social and economic change. Furthermore, the border incidents with Pakistan had made it clear to many people how vulnerable the Afghan economy really was in terms of its connections with the outside world.

The Prime Minister's first attack was directed at the Bank-i-Melli which had enjoyed relatively smooth sailing during the regime of the King's Uncles, Hashim Khan and Shah Mahmud. Dealing with the King's Cousins, Daoud and Naim proved to be more difficult partly because of their "dirigiste" philosophy as well as because of the fact that the "Cousins" had not been as closely connected with the Bank-i-Melli group as the "Uncles".

The position of the Bank-i-Melli was further threatened by the fact that Abdul Malik, the new Minister of Finance and subsequently also Minister of National Economy, who had taken over after Mr. Zabuli, who had resigned in 1950 over a controversial foreign exchange allocation, was imbued with a strong anti-private sector bias. The turning point for the Bank-i-Melli was reached in 1953 when Shah Mahmud's resignation put an end to the regime of the King's Uncles.

Almost immediately, the Bank-i-Melli was forced to divest itself from some of its industrial ventures. The government obligated the Bank to sell about sixty percent of the stock of the Northern Cotton Company to the Ministry of Finance as well as fifty one percent of its stock in the Electric Company which was constructing the new Sarobi hydro-electric plant near Kabul. In most of these cases of forced take over, the government paid the Bank out of the profits of the companies in which it had acquired a participation. Next, the government reduced the earnings of the Textile Company by price controls on textiles. The profits of the Karakul Export Company likewise evaporated because of price controls while strict exchange control over all proceeds from karakul, wool and cotton eliminated most possibilities of profitable re-investment. As a result, the completion of the Gulbehar Textile Mill was delayed for a number of years. To top it off, the government charged the Bank-i-Melli with tax evasion in connection with capital gains derived from the sale of stock and land.[1]

The various steps to curtail the activities of the Bank-i-Melli constituted a drastic blow from which the Bank never recovered. Apart from the prevailing anti-private sector sentiment in the 1960's, there were also political overtones because of the Bank's concentration of investment in the north, rather than in the south which was populated by the Pushtun majority. Perhaps even more of a factor was the fear that the Bank-i-Melli was becoming a state within the state because of its financial and economic control over a large area north of the Hindu Kush populated by minority groups, such as Uzbaks and Turkomen.

Next, the government, in 1954, established the Pashtany Tejarati (Commerce) Bank to bring foreign trade under its control while the Ministry of Agriculture formed the Agriculture and Cottage Industries Bank in the same year. There was even an attempt to convert the Bank-i-Melli into an Industrial Bank. However, this was fended off by the creation of the now defunct Industrial Loan Fund in 1957, in which the Bank-i-Melli took a small participation. Most of these new financial institutions performed quite poorly over the years, largely because of political interference, weak management and legal impediments in the areas of making loans and foreclosure.

In summary, it can be said that while Nadir Shah rebuilt the house, Hashim and Abdul Majid Zabuli tried to put the furniture into place. After these three men had been on the scene, the Afghan economy was no longer the same. It had developed major new exports, created an agribusiness industry base, acquired its first institution of higher education, reduced Russian influence in the north through the economic development of that area and established a beginning for development in the south of the country, all of which was done with a minimum of reliance on public funds.

---

1. Franck, Peter G. Economic Progress in an Encircled Land. Middle East Journal, 10 (1) Winter 1956, pp. 43-59.

Hashim Khan's scheme of using the Bank-i-Melli empire as a primary vehicle for increasing Afghanistan's foreign trade paid off handsomely. Between 1938 and 1945, the value of Afghanistan's exports increased fourfold and its balance of payments improved in a most spectacular way, as may be noted from the following figures:

Afghanistan's Foreign Trade 1938-46
(in millions of U.S. dollars)

Year	Exports (FOB)	Imports (CIF)
1938	7.7	14.4
1940	12.6	12.7
1942	4.7	6.6
1944	30.0	6.6
1946	28.3	25.0

Source: Da Afghanistan Bank, Economic Bulletin, August 1961.

Karakul fur became one of Afghanistan's principal sources of foreign exchange and the number of skins exported increased from 906,482 in 1932 to 3,339,825 in 1945.[1] Fruits, cotton and wool were the other major export items which together represented some forty percent of the export trade. Yet, in spite of all this, Afghanistan's economy remained vulnerable because of a lack of economic diversification. Prime Minister Hashim was well aware of this since as early as 1939, he introduced a long-term Economic Development Plan, prepared by Mr. Zabuli, to improve the agricultural economy of the country through major irrigation projects and new agribusiness type industries as well as by improving the country's transportation and communications. However, not much came of this Plan since the outbreak of World War II put a considerable strain on Afghanistan's economy.

Another drawback of "the system" was that by giving the Bank-i-Melli, which handled most of the country's export trade, a monopoly position,

---

1. Bank-i-Melli Afghan. Report of the Board of Directors and Balance Sheet, (March 21, 1953-March 20, 1954) submitted to the Annual Meeting of the Bank-i-Melli, Kabul, 1954, pp. 6-7.

a duality of interest was created between personal gain and the national interest. Particularly on the import side, certain imports which yielded the greatest profit were not necessarily in the nation's interest. This largely benefitted a small group of the country's leading merchants and the Royal Family without having much of an impact on the rest of the people who remained desperately poor.

To cope with this problem, the government subsequently rescinded some of the Bank-i-Melli's monopoly privileges while at the same time breaking up some of its integrated industrial activities. As we can observe today, the "cure" may well have been worse than the disease since Afghanistan's subsequent shift to the development of large public sector industries, almost all of which have been losing money, resulted in a considerable misdirection of resources as well as a continuing drain on the country's budget.

ANNEX B

A CASE STUDY IN AFGHAN INVESTMENT PROCEDURE

CENTURY RE-ROLLING MILL
APPLICATION NO. 46/021

This project is a foreign investment by a Pakistani investor, Mr. Hassan Ali. Mr. Hassan Ali holds Investment License No. 1, and for this reason was a guinea pig in regard to all procedural matters.

The purely technical parts of the application Mr. Hassan Ali did by himself, having been the proprietor of a re-rolling mill in Karachi for many years. However, considerable explanation was necessary to the Secretary of the Investment Committee and to the Minister of Commerce as to the nature of a re-rolling mill, the raw material to be used, the products to be produced and their eventual use.

Eventually, the project was approved, and then the search began for a suitable building site. Under the laws of Afghanistan, foreigners may not own land but may only rent it. The procedure is that the original owner of the land must sell the land to the Construction Bank which, in turn, will lease it to the foreigner for a term of up to ninety-nine years. The contract team advisors attempted to be a buffer and coordinator between the investor with the agonizing procedure all this entails, and eventually he located a suitable piece of land on the Jalalabad Road. The whole procedure was very complicated due to the lack of an industrial park, a problem which now has been solved through the actual creation of such a facility.

Further complications arose during the importation of Mr. Hassan Ali's machinery and equipment which generally required a double and triple checking of both the items and the value of the machinery imports. In the first instance, it was discovered that the investor's assumption that fire bricks were obtainable in Afghanistan was totally unwarranted. Consequently, these were required to be imported in large numbers, thus increasing the value of the total imported equipment considerably beyond the value anticipated and listed in the application. Thus, an amended application had to be prepared for subsequent action by the Investment Committee. In the meantime arrangements were made for the release of the fire bricks from Customs so that work on construction of the factory would not be stopped.

Simultaneously, it was discovered that Customs, carrying on the procedures under the old Investment Law, were requiring all imported machinery to be examined and certified by inspectors from the Ministry of Mines and Industries. Aside from the bureaucratic delays involved, this was a dangerous precedent since at the time Mines and Industries had no love for the private industry program and since their reputation in regard to machinery was none too good. After bringing the matter to the attention of the Minister of Commerce and explaining to him the dangers involved, the contract advisors persuaded him to make an issue of the matter to get Customs procedures changed.

Another unfortunate assumption made by the investor in connection with the project was that people were available in Afghanistan who could lay foundations for heavy machinery. This caused considerable delays in time and several false starts. It soon became obvious that the investor would have to bring his own experts from Pakistan. However, the approved application made no mention of such temporary installation experts and the Afghan Foreign Office was very suspicious. After long discussions, it was discovered that if the investor were to pay the wages of these people in Pakistan rather than in Afghanistan, so that they did not need work permits, the Foreign Office would allow them in as tourists for a sufficient length of time to lay the foundations.

Visas for the investor and his family also turned out to be a serious problem. Under the then existing Afghan visa regulations, the investor needed either to put up a monetary guarantee, or to get an Afghan to issue a guarantee for his financial obligations before he was permitted to leave the country. Since the investor in question had a business in operation in Karachi, and since the implementation of his investment application required his constant traveling between Pakistan and Afghanistan, the situation became almost impossible. As an emergency measure, a "permanent" guarantee to be placed on record was arranged for by the contract advisors, thus reducing the problem of obtaining the exit visa to the Secretary of the Investment Committee's issuing a letter stating that there was such a guarantee. Subsequently, a special Investor's Visa was proposed which presumed that the investor's investment was sufficient financial guarantee and that authorized the Secretary of the Investment Committee to issue such visas. After elaborate explanations, this new multi-entry/exit visa regulation was finally passed by the Cabinet and Mr. Hassan Ali obtained Investor's Multi-entry/exit Visa No. 1.

Another problem was that of the availability of electric power. While Kabul now has a surplus of power from the new hydroelectric stations, the Kabul

Electric Company still functions with the rules and mentality of the days when power was very short; it is their view that they are doing the public an immense favor by providing a connection. Only after many letters and much intercession by the contract advisors and the Secretary of the Investment Committee, was Mr. Hassan Ali finally connected to the high-tension line.

In this regard, it should be noted that in all Mr. Hassan Ali's dealings with other Government agencies, the help and intercession of either the advisors or the Secretary of the Investment Committee was necessary. He was even forced to require official help to be permitted to bid for the metal scrap resulting from the construction of the Hotel Inter-Continental.

A further complication arose in regard to the training staff to be imported from Pakistan. With the erection delays described above, Mr. Hassan Ali was barely in production at about the same time his application stated that the training staff would leave. The visa situation being what it is in Afghanistan (particularly for Pakistanis), the Government was quite ready to throw out the training crew before they had trained any Afghans. Even the Ministry of Commerce, for political reasons, was very hesitant about renewing their visas. It was only after the advisors had explained in detail to the Deputy Minister of Commerce that the workers in the factory were handling red hot bars of iron with considerable personal danger and that if some Afghan were killed or injured as a result of lack of training, the Ministry could be held morally responsible, that the situation was solved.

Next there was a problem concerning Mr. Hassan Ali's raw materials. In his original application, he estimated that he would need imported raw materials in the third year of operation. During the second year of operation, however, a situation arose where he began to run short of Afghan (scrap) material and needed to import. Unfortunately, the application was read at the Ministry of Commerce as not being an estimate but as being a commitment: that is to say, he would not import raw materials before the third year. It was then decided that the only way this could be charged was by an amendment to the application to be passed by a full Meeting of the Investment Committee, allowing him to import. After much delay, the proposal was finally submitted to the Investment Committee which refused to give a decision since it was not familiar with steel billets. A steel billet was then obtained and at the next meeting (approximately a month later), the billet was brought into the Committee room and placed on the table. The Committee then agreed that Mr. Hassan Ali could import billets but not scrap material.

Billets were in short supply—worldwide—and it was impossible for Mr. Hassan Ali to receive them in less than six months from any source. Unfortunately, the wording of the Committee's decision was just as specific as it could be—billets and no scrap material. Again the advisers brought the situation to the attention of the Minister of Commerce, who agreed that the decision made no sense. However, it is an official governmental decision and consequently it required a Committee meeting to reverse it.

When the sample steel billet was presented to the Investment Committee for inspection and for their edification, they, each, initialed the billet and had it placed in a safe, for safekeeping, so that when steel billets were imported, the imported billets could be matched with the sample. Steel billets are not always of uniform size (depending on source); therefore, more trouble could be anticipated with imported billets which would arrive, differing in any respect from the one initialed and in the safe.

Usually, however, once a problem is well-defined and explained, there is no re-occurrence of difficulty at that particular level of intelligence. Subsequent problems do, however, arise with lower echelon people and those people are usually more difficult to deal with due to their lack of comprehension.

What can be learned from this case is that while the interjection of foreign advisers into the procedural problems of the government had obviously some undesirable aspects, the project would not get off the ground unless this were done. The same holds true for many other applications which ultimately resulted in the establishment of the factories now in operation. Fortunately, however, it also appears that as a result of this intercession gradually a procedure was developed which tended to prevent a repetition of exactly the same problem. For this reason, it would seem that the active role of the contract advisers constituted almost a necessary evil in an as yet slow but gradual improvement of the procedures of existing institutions.

Source: USAID Non-Capital Project Paper, dated 8/11/70, pp. 35-38.

ANNEX C

COMPARISON OF

FOREIGN AND DOMESTIC PRIVATE INVESTMENT LAWS

OF 1345 AND 1353

This is a side-by-side comparison of the two investment laws, prepared without commentary. It includes all articles of both laws. In some cases, articles or parts of articles of one law or the other are used more than once to make the comparison clear. There are articles in both laws which have no similar provision in the other; these are marked "no similar provision" or in other appropriate ways.

Note that, although the article titles in the 1345 law are part of the actual law, the article titles in the 1353 law are not. The official Farsi version was prepared without article titles; the titles included in the English translation were added by the translator for the convenience of readers.

FOREIGN AND DOMESTIC PRIVATE INVESTMENT LAW OF 1st HOOT 1345 (February 22, 1967)

ARTICLE 1. PURPOSE

The purpose of the present law is to encourage and protect new, private investments by both foreign and Afghan nationals so as to promote economic development and to advance the standard of living in Afghanistan.

FOREIGN AND DOMESTIC PRIVATE INVESTMENT LAW OF 30 JOUSA 1353 (June 20, 1974)

ARTICLE I. Purpose

The purpose of this law is to encourage, protect, guide and control private investment for the creation and expansion of industries, and to provide necessary collaboration between public and private investment for the purpose of the progress, coordination, and balanced development of the national economy.

ARTICLE II. Characteristics of Desirable Investments

For the purpose of increasing national income, private investment shall be based on a majority of the following bases/characteristics:

1. Maximum use of Afghan raw materials.
2. Maximum use of Afghan manpower.
3. Import substitution.
4. Increase in quantity and value of exportable items.

FDPIL of 1345

ARTICLE 2. SCOPE

The privileges, rights and obligations of this law shall extend to all new, private investments in Afghanistan by any real person or non-governmental legal entity, whether Afghan or foreign, provided that the following conditions are met:

a. The investment is approved by and registered in detail with the Investment Committee in accordance with this law.

b. The investment is made within the framework of a corporation, limited liability partnership or other form of company established pursuant to the Commercial Code of Afghanistan or by a legal entity or person authorized to do business in Afghanistan pursuant to this law.

c. The accounts of the investment are subject to an annual independent audit by auditors who meet internationally acceptable standards of accounting.

FDPIL of 1353

5. Satisfaction of the common needs.
6. Use of Afghan industrial products.
7. Maximum value added.

ARTICLE III. Qualifications of Private Investments

Private investments by real persons or legal entities shall benefit from exemptions and favorable treatment and shall be obliged to fulfill their obligations as specified in the present law, provided that the following conditions are met:

1. The investment should have been officially approved and registered by the Investment Committee according to the provisions of the present law.

2. The investment should be made by real persons or legal entities authorized to conclude and execute such transactions.

3. The books of account of the investment should be audited annually at the expense of the investor by an independent auditor who meets international standards and who is acceptable to the Ministry of Finance of Afghanistan.

FDPIL of 1345

d. The investment is made in any of the following fields of activity:

(1) Industry;
(2) Mineral exploitation, provided such investment is in accordance with the Mining Law of Afghanistan;
(3) Agriculture, animal husbandry or the processing of agricultural or animal products;
(4) Tourism, especially the construction of operation of hotels;
(5) Any service industry or priority enterprise not included in the above categories which the Investment Committee may designate by regulation pursuant to this law.

ARTICLE 3. FISCAL BENEFITS

Investments within the scope of this law, hereinafter called "approved investments," shall receive the following fiscal benefits:

a. Exemption from taxes on all income of the company for a period of five consecutive years beginning with the year in which the first sale of goods or services of the approved investment occurs.

FDPIL of 1353

4. The investment is within the scope of the field of investment and projects determined by the Investment Committee to be appropriate and acceptable for private investment under the present law.

ARTICLE V. Benefits and Prerogatives

Investments that have been approved by the Investment Committee according to the provisions of this law shall benefit from the following exemptions and special treatment:

1. Exemption from taxes on all income of the company for a period of four consecutive years beginning with the year in which the first sale of goods or services

FDPIL of 1345

b. Exemption from import duties on capital goods, replacement parts, raw materials not available in the country or semi-finished goods necessary for the establishment or current production of the approved investment for a period of five consecutive years beginning with the date of approval by the Investment Committee.

Such customs-free imports must, however, be registered as such by the Customs Department of the Ministry of Finance and a duplicate copy of the registration must be sent by the Customs Department to the Chairman of the Investment Committee.

If a dispute arises as to whether a specific import is to be regarded as "essential" within the meaning of this law, such dispute shall be resolved in the first instance by majority vote of the Investment Committee. If the Committee's decision should be adverse to the petitioner, it may be appealed by the petitioner to the Primary Commercial Court in Kabul, whose decision shall be final and binding.

Passenger automobiles shall in no event be exempted from import duties under this law.

FDPIL of 1353

of the approved investment occurs.

2. Exemption from personal income tax and corporate tax on all dividends for four consecutive years beginning with the year in which a dividend is first distributed, provided that the tax exemption shall in no event extend beyond the seventh year from the date of approval of the investment.

3. For projects that are going to be established outside of Kabul Province, the duration of the exemptions referred to in paragraphs (1) and (2) of this article shall be increased by two years.

4. For capital goods, spare parts for replacement, raw materials, and semi-finished goods not produced in the country and necessary for the establishment or current production of the approved investment, the following favorable customs duties are applicable:

Capital goods: exempted (in accordance with Article 26 of the Customs Law).

Spare parts: ten percent (on the basis of the invoice for the goods at the customs port or the unit price).

FDPIL of 1345

c. Investors shall be exempted from personal income tax and corporate tax on all dividends for a period of five consecutive years, beginning with the year in which a dividend is first distributed, provided that such exemption shall in no event extend beyond the eighth year after the date of approval of the investment.

d. Interest on foreign loans which constitute part of an approved investment shall be completely exempt from personal income tax and corporate tax.

e. Products of approved investments shall be exempted from all export duties for a period of ten years from the date of approval of the investment.

FDPIL of 1353

Raw materials and semi-finished goods: twenty percent maximum (on the basis of the invoice for the goods at the customs post or the unit price).

Within the twenty percent maximum rate, the customs duties for individual raw materials and semi-finished goods shall be determined and announced by the Investment Committee at least once a year prior to the beginning of the year on the basis of their classification and considering the custom duties on similar imported goods and the provision of Article II of the present law. Passenger automobiles, ordinary trucks, ordinary construction materials, and office furniture shall in no event be exempted from the customs duty.

Imports that come under the above exemptions or reductions must be registered by the Customs Presidency of the Ministry of Finance and a copy of the registration must be sent to the Chairman of the Investment Committee.

If a dispute arises as to the interpretation of the present law with respect to whether a specific import is to be regarded as essential, such dispute shall be considered in the first instance by the Investment Committee, which shall express its views. If the Investment Committee opinion is adverse to the petitioner, he may appeal to the Primary Commercial Court in Kabul whose decision shall be final and binding.

FDPIL of 1345	FDPIL of 1353
	5. Approved investments are exempt from payment of <u>sukuk</u> taxes, registration fees, and other legal fees levied by the court in connection with the preparation of commercial and judicial documents and deeds related to bank transactions. However, investors are required to pay court service fees for the completion of procedures necessary for the above-mentioned documents and deeds at the agreed upon rates in the schedule in Appendix A of the present law.
	6. Interest on foreign loans that are part of an approved investment is fully exempt from income taxes.
	7. Products of an approved investment shall be exempt from payment of export taxes according to the provisions of the Customs Law, provided that such products are permitted to be exported.
ARTICLE 4. OTHER BENEFITS An approved investment shall also be entitled to such other fiscal benefits as may be provided by the Income Tax Law, such as depreciation allowances and investment credits.	See Article V.

FDPIL of 1345

ARTICLE 5. REPATRIATION OF PROFITS, INTEREST AND CAPITAL

Capital, profits accruing to foreign investors and interest installments on loans received from abroad may be freely repatriated in the original foreign currency on the basis of Da Afghanistan Bank's free market rate, in accordance with the following conditions:

a. Payment of principal and interest to the extent of the legal obligation to do so.

b. Profits of the foreign investment may be repatriated at the end of any fiscal year, after submission to the Ministry of Finance of an auditor's certificate in accordance with Article 11.

c. Registered foreign capital and such reinvested profits as shall have been registered may be repatriated after five years from the date of approval of the investment at an annual rate not to exceed twenty-five percent of the total foreign capital invested and registered.

d. If the repatriation rights granted by this Article should be impaired by foreign exchange controls imposed for

FDPIL of 1353

ARTICLE VII. Capital, Profit, and Debt Service Repatriation

Capital, profits accruing to foreign investors, and interest installments on loans received from abroad may be freely repatriated in the original foreign currency on the basis of the Da Afghanistan Bank free market rate in accordance with the following conditions:

1. Payment of principal and interest to the extent of the obligation in the credit agreement.

2. Profits of the foreign investment at the end of any fiscal year after submission to the Ministry of Finance of an auditor's certificate in accordance with Article XIII of the present law.

3. Registered foreign capital and such reinvested profits as shall have been registered after five years from the date of approval of the investment at an annual rate not to exceed twenty percent of the total foreign capital invested and registered.

4. With respect to the imposition of foreign exchange controls, the foreign investors shall enjoy equal rights with

FDPIL of 1345

balance of payments reasons, such controls shall be imposed so as to cause the least possible impairment of repatriation rights and, in any event, foreign investors shall be guaranteed national treatment on an equal footing with Afghan nationals with respect to availability of foreign currency.

ARTICLE 6. REPATRIATION OF ROYALTIES AND FEES

The purchase price or licensing fees for patents or know-how, which are part of an approved investment, may be repatriated in accordance with the legal obligation to make such payments, provided that such purchase price or licensing fees have been approved by the Investment Committee as constituting a part of the investment and as being reasonable in relation to the total investment and return thereon.

ARTICLE 7. FOREIGN CAPITAL

Foreign capital invested in Afghanistan pursuant to this law shall enjoy the benefits established herein, as well as the regular facilities, benefits and assistance available to Afghan capital.

FDPIL of 1353

Afghan nationals regarding the availability of foreign exchange.

ARTICLE VIII. Licensing Fees for Patents and Know-how

The purchase price of licensing fee for patents or know-how that are part of an approved investment may be repatriated in accordance with the legal obligation to make such payments, provided that such purchase price or licensing fee has been approved by the Investment Committee as constituting a part of the approved investment.

ARTICLE IX. Non-discrimination According to Nationality of Capital

There shall be no discrimination between Afghan capital and foreign capital invested pursuant to this law as regards facilities, prerogatives, tax and customs obligations, keeping of accounts, and judicial and arbitration procedures.

FDPIL of 1345	FDPIL of 1353
There shall be no discrimination between foreign capital and Afghan capital invested pursuant to this law, especially as regards the levying of taxes and duties, the keeping of commercial books and judicial or arbitration proceedings.	See also Article XVI.
ARTICLE 8. EVALUATION	ARTICLE X. Evaluation of Investment-in-kind and Intangibles
Investments in kind and intangible property shall be evaluated at current international market prices. In case of disagreement, the valuation shall be done by an independent, professional appraiser acceptable to the Investment Committee.	Investments in kind and intangible assets shall be evaluated at current international market prices. In case of disagreement, the valuation shall be done by an independent professional appraiser acceptable to the Investment Committee.
ARTICLE 9. REPATRIATION OF SALARIES	ARTICLE XI. Repatriation of Expatriate Salaries
Foreign personnel of approved enterprises may repatriate up to seventy per cent of their income, net of taxes, through Da Afghanistan Bank at the latter's free market rate.	Foreign personnel of approved enterprises may repatriate up to sixty percent of their income net of taxes through the Da Afghanistan Bank at the latter's free market rate of exchange.
ARTICLE 10. TAXATION OF FOREIGNERS	ARTICLE XII. Equal Treatment of Foreign and Afghan Nationals
Foreign companies, investors and personnel within the scope of this law shall be subject to the same obligations	Foreign companies, investors, and personnel within the scope of this law shall be subject to the same obligations

FDPIL of 1345

as similarly situated Afghan nationals, with respect to taxes, duties and other fiscal obligations.

ARTICLE 11. INDEPENDENT AUDIT

Enterprises within the scope of this law are required to maintain regular books of account, a balance sheet and a profit and loss statement which must be audited annually by an auditor who meets international standards and who is acceptable to the Ministry of Finance of Afghanistan.

Copies of the auditor's report shall be submitted annually to the Ministry of Finance and to the Chairman of the Investment Committee.

ARTICLE 12. RIGHT TO DISPOSE OF SHARES

Shares of approved investments may be freely sold to any Afghan or foreign national. No foreign government or agency thereof may acquire such shares. The foregoing limitation shall not apply in cases where the investment is guaranteed by a foreign government or agency thereof; and the government or agency thereof would be subrogated to the rights of the owner of the shares on the basis of the

FDPIL of 1353

as similarly situated Afghan nationals with respect to rights, taxes, customs duties, and other fiscal obligations.

ARTICLE XIII. Accounting and Auditing

Enterprises within the scope of this law are required to maintain regular books of account, a balance sheet, and a profit and loss statement which must be audited annually by an independent auditor who meets international standards and is acceptable to the Ministry of Finance of Afghanistan. Copies of the auditor's report shall be submitted annually by the private enterprise to the Ministry of Finance and the Chairman of the Investment Committee.

ARTICLE XIV. Sale of Shares

Shares of approved investments may be freely sold to any Afghan or foreign national, provided that such sale should be within the limit set up in Article XVI of this law and in accordance with the Commercial Code of Afghanistan; however, these shares cannot be sold to a foreign government or governmental agency.

FDPIL of 1345	FDPIL of 1353
provisions of a valid agreement between the Government of Afghanistan and the government of the investor concerned.	
ARTICLE 13. FOREIGN SHAREHOLDERS' RIGHTS IN THE EVENT OF SALE OR LIQUIDATION OF THE APPROVED INVESTMENT	ARTICLE XV. Transfer of Proceeds of Sale of Shares and of Liquidation
The proceeds of the sale of shares of foreign nationals in an approved investment, sold to an Afghan national or to the Government of Afghanistan, may be transferred abroad through the Da Afghanistan Bank at the latter's free market rate of exchange in accordance with the provisions of Article 5 of this law.	The proceeds of the sale of shares of foreign nationals in an approved investment sold to the Government of the Republic of Afghanistan or to Afghan nationals may be transferred through the Da Afghanistan Bank at the latter's free market rate of exchange in accordance with Article VII of this law.
In case of liquidation or bankruptcy, the remaining net assets belonging to foreign nationals are also transferable abroad as provided above.	In case of liquidation or bankruptcy, after the completion of the required legal procedures therefor, the remaining net assets belonging to foreign nationals after the liquidation are transferable abroad as provided above.
ARTICLE 14. AGREEMENTS CONCLUDED BY THE INVESTMENT COMMITTEE	No equivalent provision. Article XX covers the Investment Committee and its operations.
Separate arrangements for the possible sale of shares belonging to foreign nationals in an approved investment may be made between the Investment Committee and the foreign investor.	

FDPIL of 1345

Furthermore, the Investment Committee may negotiate, on behalf of the Royal Government of Afghanistan, supplemental agreements such as management contracts, agreements for the expansion of productive capacity, the training of Afghan personnel, etc., which are necessary and appropriate to the particular investment.

Any such agreement must, however, be published in the Official Gazette within three months of its conclusion, and shall be of no force and effect until so published.

ARTICLE 15. MEASURES FOR ENCOURAGING JOINT VENTURES

The encouragement of joint ventures in Afghanistan between Afghan nationals and foreign nationals is among the objectives of this law. Therefore, no specific amount of investment by Afghan nationals is required in such investments under this law.

ARTICLE 16. OBLIGATIONS OF GOVERNMENT AGENCIES AND DEPARTMENTS TO PURCHASE THE PRODUCTS OF APPROVED INVESTMENTS

All Government agencies and departments are required to purchase their necessary supplies and services from

FDPIL of 1353

ARTICLE XVI. Limitation of Foreign Equity

Foreign investment under the present law shall only be made in the form of a joint venture with Afghan capital and the share of foreign investment in a given investment cannot exceed forty-nine percent.

ARTICLE XVII. Government Purchase of Local Products

Government departments and enterprises are required to purchase their necessary supplies and services from enter-

FDPIL of 1345

enterprises established under the provisions of this law, provided that such supplies are substantially similar in quality and price with importable equivalents.

For purposes of this Article, price comparisons shall be made on the bases of the Da Afghanistan Bank's free market rate of exchange.

ARTICLE 17. PROTECTION AND GUARANTEE OF THE RIGHTS OF INVESTORS IN CASE OF EXPROPRIATION IN ACCORDANCE WITH THE CONSTITUTION OF AFGHANISTAN

Property within the provisions of this law is protected against Government expropriation in accordance with Article 29 of the Constitution.

ARTICLE 18. APPEAL FROM ADMINISTRATIVE ACTIONS

If administrative actions are regarded by an investor as not being in conformity with the provisions of this law, the investor shall have the right of appeal to the Investment Committee.

FDPIL of 1353

prises established under the provisions of this law, provided that such supplies and services produced in Afghanistan shall not be substantially different than similar imported goods and services and that the price of the local goods and services shall not be more than fifteen percent higher than importable equivalents.

ARTICLE XVIII. Expropriation

Property of an approved investment cannot be expropriated except as provided for by the applicable law and upon issue of an order of the competent court. Expropriation of the property of an approved investment can be carried out only in the public interest and after compensation made according to the provisions of the law.

ARTICLE V, last paragraph, provides:

If a dispute arises as to the interpretation of the present law with respect to whether a specific import is to be regarded as essential, such dispute shall be considered in the first instance by the Investment Committee, which shall express its views. If the Investment Committee opinion is

FDPIL of 1345

If the decision of the Investment Committee is unsatisfactory to the petitioner, he may appeal to the Primary Commercial Court in Kabul, whose decision shall be final and binding.

ARTICLE 19. ARBITRATION

Except for cases mentioned in the foregoing Articles, disputes arising from the application of this law between the Royal Government of Afghanistan and foreign nationals shall be settled in accordance with the Convention on the Settlement of Investment Disputes Between States and Nationals of other States, provided that the Government of Afghanistan and the foreign investor have agreed to do so. Such agreements shall be transmitted to the General Secretary of the International Centre for the Settlement of Investment Disputes as provided by the above Convention.

Other disputes arising between the above-mentioned foreign nationals and the Royal Government of Afghanistan shall be settled by arbitration as provided below. Each party shall appoint one arbitrator, who shall then jointly select a mutually-acceptable third arbitrator within thirty days. If within this period a third arbitrator is not selected, or if the second arbitrator is not appointed within

FDPIL of 1353

adverse to the petitioner, he may appeal to the Primary Commercial Court in Kabul whose decision shall be final and binding.

ARTICLE XIX. Disputes

Except for the case mentioned in the foregoing article, disputes arising from the application of this law between the Investment Committee and foreign nationals shall be settled in accordance with the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States, provided that the Investment Committee and foreign investor agree to do so. Such agreements shall be transmitted to the Secretary General of the International Center for the Settlement of Investment Disputes as provided by the above Convention.

In the absence of agreement by the Investment Committee and foreign investors to submit to arbitration as provided above, disputes between the Investment Committee and foreign investors shall be settled as follows. Each party shall appoint one arbitrator, who shall then jointly select a mutually-acceptable third arbitrator within thirty days. If within this period a third arbitrator is not selected, or if the second arbitrator is not appointed within thirty days

FDPIL of 1345

thirty days after the other party has appointed and given notice of its arbitrator, then such arbitrator or arbitrators shall be appointed by the Secretary General of the above-mentioned International Centre.

The arbitral tribunal composed of the above three arbitrators shall determine its own rules of procedure and shall assess costs between the parties.

Decisions shall be taken by majority vote of the arbitrators.

The arbitral award shall be in writing, shall contain a statement of the reasons on which it is based and shall be published in the Official Gazette.

The arbitral award shall be accepted by the parties as the final adjudication of the dispute.

ARTICLE 20. INVESTMENT COMMITTEE

The Investment Committee shall be composed of the following ministers or their authorized representatives: Minister of Commerce, Minister of Planning, Minister of Mines and Industries, Minister of Finance, and the Minister of Agriculture. The Minister of Commerce shall

FDPIL of 1353

after the other party has appointed and given notice of its arbitrator, then such arbitrator or arbitrators shall be appointed by the Secretary General of the above-mentioned International Center.

The arbitral tribunal composed of the above three arbitrators shall determine its own rules of procedure and shall assess costs between the parties.

Decisions shall be taken by majority vote of the arbitrators.

The arbitral award shall be in writing, shall contain a statement of the reasons on which it is based and shall be published in the Official Gazette.

The arbitral award shall be accepted by the parties as the final adjudication of the dispute.

ARTICLE XX. Investment Committee Composition and Operation

The Investment Committee shall be composed of the following ministers or their authorized representatives: the Minister of Planning, the Minister of Commerce, the Minister of Mines and Industries, the Minister of Finance, and

FDPIL of 1345

serve as Permanent Chairman of the Investment Committee. In his absence, the Minister of Planning shall act as Chairman.

The Investment Committee shall convene as often as shall be necessary to consider investment applications and other matters before it. Individual members of the Committee may consider such applications without formally convening the Committee and shall give their decision in writing to the Chairman.

Decisions of the Investment Committee shall be simple majority vote.

The Investment Committee is herewith empowered to issue regulations and necessary administrative procedures within the scope of this law in order to fulfill the objectives of this law. Such regulations or procedures will be effective after publication in the Official Gazette.

The Investment Committee may delegate such authority and duties as it deems necessary to fulfill the objects of this law.

The Chairman of the Investment Committee shall cause publicity to be given to this law in order to explain it and pre-

FDPIL of 1353

the Minister of Agriculture and Irrigation. The Minister of Planning shall serve as permanent chairman of the Investment Committee. In his absence, the Minister of Commerce shall act as chairman.

The Investment Committee shall convene at least once each month to consider investment applications and related matters. Decisions of the Investment Committee shall be by simple majority vote of the members of the committee.

The Investment Committee shall prepare, for submission to the government, the regulations necessary for achievement of the goals established in the present law. The Investment Committee shall undertake selected and effective measures in accordance with the provisions of this law for the fulfillment of its objectives.

FDPIL of 1345

pare the ground for private investment in Afghanistan and shall generally undertake all effective measures in accordance with the provisions of this law in order to fulfill the objectives of this law.

ARTICLE 21. LIST OF PROJECTS

The Investment Committee shall publish at least once a year a list of investment opportunities which would qualify as approved investments under this law.

ARTICLE 22. DECISIONS OF THE INVESTMENT COMMITTEE

Within three months of the date of submission of a formal investment application according to Article 23, the Investment Committee shall issue a preliminary acknowledgment to the applicant stating:

a. Whether the proposed investment is within the scope of the present law;

b. Any recommended changes the Committee wishes to propose with respect to the investment; and,

FDPIL of 1353

ARTICLE IV. Scope for Private Investment

The Investment Committee shall meet at least once a year to determine the list of approved projects and shall cause the list to be published at least once a year in the local press.

See Article XX (Paragraph 3)

FDPIL of 1345

c. Such additional information the Committee deems necessary.

As soon as is reasonably possible thereafter, the Investment Committee shall give its Final Decision in writing to the applicant.

Every Final Decision of the Investment Committee, whether approving or rejecting an application, together with every agreement pertaining thereto between an investor and the Investment Committee, shall be published in the Official Gazette within two months.

ARTICLE 23. INVESTMENT APPLICATIONS

Applications for investments within the scope of this law shall be prepared in five copies and submitted to the Ministry of Commerce. The Minister of Commerce shall forthwith cause a copy to be given to every, other member of the Investment Committee.

Applications may be accepted in Pashto, Dari, English, French or German. The Committee may require the applicant to submit a Pashto or Dari text of the application and all relevant documents.

FDPIL of 1353

There is no similar provisions. The intention is to cover all this in the regulations. (See Article XX, paragraph 3.)

FDPIL of 1345	FDPIL of 1353
Applications must contain the following information: a. Name, nationality, and a brief summary of the investor's business background. b. Detailed description of the proposed investment, including the following relevant information as required by the type of investment: (1) Estimations of capacity and a pro forma profit and loss statement for the first five years of operation; (2) Amount and source of necessary raw materials; (3) Imports of goods and services necessary to establish the enterprise and estimated additional imports during the first five years of operation; (4) Anticipated domestic sales and exports; (5) Contracts concluded by the applicant for the sale of the products of the proposed investment, and such contracts as the applicant has an expectation of concluding;	

FDPIL of 1345	FDPIL of 1353
(6) Personnel; including management, foreign experts, and estimated number of other employees;	
(7) Type and degree of training to be given to Afghan personnel.	
c. Amount, type and country of origin of capital.	
d. Degree of Afghan participation in the proposed investment.	
e. Applicant's representative in Afghanistan.	
f. Articles of Incorporation of the applicant, if a legal entity; and Articles of Incorporation of the proposed enterprise, if it is in the form of a company.	
g. Land, services and other facilities which the applicant wishes the Royal Government of Afghanistan to provide.	
h. Adequate financial information about the applicant.	
i. Such other information as the Investment Committee may require according to the type of investment.	

FDPIL of 1345

ARTICLE 24. SINGLE LICENSE

The license issued on the basis of final approval by the Investment Committee shall constitute the only license required under the laws of Afghanistan for an approved investment. Such investment may not, however, export goods which are not produced by it or import goods other than those necessary for its own production or use.

ARTICLE 25. ACTIVITIES NOT WITHIN THE SCOPE OF THIS LAW

Afghan nationals whose proposed investments do not qualify under the present law may carry on business in accordance with the Commercial Code and other relevant commercial and fiscal laws of Afghanistan.

Foreign nationals who do not qualify under the present law may only be licensed to do business in Afghanistan pursuant to the Licensing Regulations for Private Foreign Traders and Firms in Afghanistan.

The above-mentioned Licensing Regulations shall not, however, be applied to investments approved under the present law.

FDPIL of 1353

ARTICLE XXI. Single License and Import-Export Restrictions

The license issued on the basis of final approval by the Investment Committee shall constitute the only license required under the Law of the Republican Government of Afghanistan for an approved investment. The approved investment cannot export goods which are not of its own production nor import goods other than those necessary for its own production.

No similar provision.

FDPIL of 1345

ARTICLE 26. SPECIAL AGREEMENTS

Nothing contained in this law shall be construed as preventing the concluding of individual investment agreements in the fields of mineral exploitation or basic industry between the Royal Government of Afghanistan and any investor, whether foreign or domestic, which agreement, due to the importance of the investment or the nature of the undertaking, may contain greater or lesser benefits or obligations other than those provided herein.

ARTICLE 27.

After the effective date of the present law, the following laws shall stand repealed:

a. The Foreign Investment Law; and

b. The Law Encouraging Industries

In the case of foreign investments made under the Foreign Investment Law of 1958, the legal provisions applicable thereto shall continue until they expire.

FDPIL of 1353

No similar provision. Possibly the following portion of Article XX may eventually permit something similar.

The Investment Committee shall prepare, for submission to the government, the regulations necessary for achievement of the goals established in the present law. The Investment Committee shall undertake selected and effective measures in accordance with the provisions of this law for the fulfillment of its objectives.

ARTICLE XXII. Abrogation of Former Law and Retroactivity

1. After the effective date of this law, the Foreign and Domestic Private Investment Law of 1345 shall stand abrogated.

2. The investments which have been approved under the terms of the Foreign and Domestic Private Investment Law of 1345 are obliged to offer foreign shareholdings for sale on the basis of the provisions of Article XVI of the present law.

FDPIL of 1345

ARTICLE 28. DATE OF COMMENCEMENT

This law may be cited as the "Foreign and Domestic Private Investment Law" and shall enter into force after publication in the Official Gazette.

* * * *

Published in the Official Gazette
No. 23 of 1st Hoot 1345

No similar article. Covered in regulations.

FDPIL of 1353

ARTICLE XXIII. Effective Date of Present Law

This law shall enter into force after publication in the Official Gazette.

ARTICLE VI. Proper Use of Benefits

Proper use of the exemptions and prerogatives provided in the present law shall be controlled by the Investment Committee. In case of proof that an investor abuses the exemptions and prerogatives, the Investment Committee has the authority to withdraw these benefits partially or entirely.

* * * *

Published in the Official Gazette
No. 8 of 30 Jousa 1353

FDPIL of 1345	FDPIL of 1353
No similar appendix.	APPENDIX A

SCHEDULE OF COURT SERVICE FEES FOR APPROVED INVESTMENTS

Registered Amount	Deeds	Other Registered Documents
Up to Afs. 1,000,000	Afs. 2,000	Afs. 1,000
From 1,000,001 to 5,000,000	Afs. 8,000	Afs. 4,000
From 5,000,001 to 10,000,000	Afs. 20,000	Afs. 12,000
From 10,000,001 to 15,000,000	Afs. 40,000	Afs. 20,000
From 15,000,001 to 20,000,000	Afs. 60,000	Afs. 32,000
From 20,000,001 to 30,000,000	Afs. 80,000	Afs. 40,000
From 30,000,001 to 50,000,000	Afs. 120,000	Afs. 60,000
Above 50,000,000	Afs. 200,000	Afs. 80,000

ANNEX D

AFGHANISTAN'S MINING SECTOR

Although indications of many minerals have been found in Afghanistan,[1] the country's mineral sector is still quite small and undeveloped, except for the production of coal and natural gas. Mineral development resorts under the Ministry of Mines and Industries which also has responsibility for the Afghan Cartographic Institute. Most of the Ministry's top officials are well prepared for their task, many of them holding advanced degrees from abroad, but unfortunately they have little to work with at lower levels. Field activities are limited and are mostly conducted with the help of Russian crews.

Afghanistan has received considerable assistance from abroad to develop its mineral resources. A German geological mission,followed by a German Geological Advisory Group,worked in Afghanistan from 1959 to 1967 for the purpose of conducting a geological survey of Afghanistan, including the preparation of a geological map, and the training of Afghan experts. This has resulted the mapping of some 400,000 square kilometers. Additional work in asbestos, salt and silica sand was done by the Hendrikson Group, a German firm of technical consultants.

In 1958-59, a French geological mission carried out geological investigations for radioactive minerals, which were nonconclussive. Subsequent French studies related to coal, iron and steel deposits. Assistance from Czechoslovakia has been limited to coal while Japan sent a geological mission in 1969 to examine beryl deposits in Nuristan.

The U.S. Bureau of Mines assisted in the exploration of beryl, chromite, lead and zinc as well as the assessment of phosphate deposits. It also provided a substantial amount of assistance to the coal industry while the mineral potential of the Kandahar, lower Helmand Region was assessed in a preliminary way by geologists from the Morrison Knudsen Company.

---

1. Afghanistan, Ministry of Mines and Industries. Geology and Mineral Resources of Afghanistan, Kabul, 1973, passim.

By and large the greatest contribution to the assessment of Afghanistan's mineral resources was made by the Soviet Union. Most of the U. S. S. R. contribution consisted of regional mapping, prospecting work and detailed work on specific mineral prospects. However, contrary to that of most other donors, the Russian assistance is provided on a contract basis, payable by Afghanistan. Since 1954, a limited amount of technical assistance in minerals exploration has also been provided by the United Nations Development Program.

On the basis of the few available data, Afghanistan's mineral potential ranges from fair to favorable.[1] Excellent beryl occurrences in the pegmatites of eastern Afghanistan have been known for many years but little commercial importance was attached to these deposits until 1957. Good grade manganese ore has been found southeast of Kabul in the Safed Koh Range and nickel ores have been spotted in Badakhshan but none of it in commercial quantities. Chromite has been found in Hesarak in Nangarhar province and in the Logar Valley, southeast of Kabul, but the geological data are sketchy and indications are that low grade Afghan chromite ore would have a hard time competing in the world markets.

Copper mineralization is widespread within some ten provinces, extending from the northeast to the southwest. Occurring in veins and disseminated in acid igneous rocks, pegmatites and in-contact-metamorphic zones bordering (and extending into) limestones, Afghan copper ores are principally the sulphides with projected mine-run values ranging upward to 2% Cu. While each of the occurrences studied to date appear to be of limited tonnage, most are located within important "sulfide belts". Each of the known sulfide belts deserve intensive study utilizing sophisticated and integrated airborne and ground exploratory techniques to either accurately measure existing mineable vein type deposits or identify the presence of important anomalies (porphyries) at depth.

The mining of gold from many locations in Afghanistan dates back to ancient times but its exploration over the centuries has been sporadic and of limited importance. More recently, interesting alluvial gold deposits have been discovered in the Mashad river which flows into

---

1. Sweetwood Charles. "Important Mineral Occurrences in Afghanistan, 1968," U. S. Department of Commerce, Washington, D. C. 1969, passim.

the Kokcha river in the northeast part of the country. There is some mining of precious stones such as low grade emeralds and rubies but this is still in a primitive stage. Lead-zinc studies are currently only of a preliminary nature but about seven occurrences may hold some promise for future exploration. Promising deposits of tin, tungsten and mecury have been discovered in several locations.

Insofar as iron ore is concerned, only the Hajigak deposit can be rated as impressive ore body. It is situated near the Hajigak Pass in Bamiyan province, about 150 kilometers west of Kabul and some 65 kilometers south of Bamiyan. According to estimates by the Ministry of Mines and Industries, possible reserves could run as high as two billion tons of plus sixty percent Fe ore. Assuming that large reserves exist and considering that open pit mining costs should be low, as well as that the reduction of Hajigak ore may be possible by using natural gas from Sheberghan, the transportation costs would nonetheless seem to present a major economic obstacle to ore exports. According to some studies made, the cost of transporting ore from Hajigak to Spin Boldak and onward to Pakistan, (a distance of some 670 kilometers) would be about twice the cost normally encountered by iron ore products elsewhere. Hence, the possibilities of using Hajigak ore to supply the steel mill at Karachi, Pakistan, for example, are remote at best.

The outlook for asbestos, fuller's earth, silica sand, talcum and sulfur is promising. Potentially commercial asbestos deposits exist at Loya Dakka in the Nangarhar province, about 200 kilometers east of Kabul. Deposits of fuller's earth are reportedly large and the material compares favorably to the imported product. Silica sand and quartzites for structural aggregates, foundry uses, and container grade glass are in abundance at many localities in Afghanistan. While Afghanistan's known deposits of elemental sulfur (in solid form) appear to be limited to only a few small deposits and warm spring, sulfur precipitate, occurrences, recently identified sulfur in sour gas wells in northern Afghanistan, hold excellent promise for significant recoveries.

Exploration of the mica deposits near Maidan and Sarobi is continuing with technical assistance from India. Possible sources of potash (potassium oxide) have been located near Andkhoi and Tashqurghan but the major uncertainty lies in the amount of brine that can be extracted from the impervious muds in the basin.

Actual mining activities of note are confined to the mining of salt, architectural building stone and lapis lazuli. The reported production of salt which is mined in some eleven locations, comes to about 28,000 tons of rock salt a year and 16,000 tons of brine salt, all of which is consumed domestically. The respective rock salt deposits are located in the Takhar province, while salt lakes occur near Herat, Andkhoy, and Kandahar. Salt output has increased steadily since 1954 and the existing distribution outlets appear to be adequate. All salt mines are owned by the State and are operated by the Salt Department of the Ministry of Mines and Industries, which sells directly to local dealers and traders.

Marble is mined commercially at three different locations in Afghanistan; Kandahar province, Kabul province, and Nangarhar province. The annual output comes to some 10,000 metric tons. Most of this production is being used in local construction. Exports have been insignificant because of transportation costs, although the quality of Afghan marble, varying from white to black, compares favorably with Italian and North American marble. There are some promising alabaster deposits near Galichah, close to the Pakistan border. A government owned alabaster and woodworking factory at Lashkar Gah has been exploiting some of these deposits, but its principal problem has been managerial as well as the lack of an adequate market for its products.

Lapis lazuli has been mined commercially since the early 1960's. Lapis lazuli is mined from State controlled mines in Badakhshan. Annual production averages five to ten tons of jewelry grade lapis lazuli. Its quality is excellent. Good quality Koalin is found in Takhar and neighboring provinces in the northeast. At present barite is still mined on a small scale but the potential is promising since fairly large deposits of good quality barite have been discovered in recent years.

The known coal occurrences of Afghanistan run from east to west along the Hindu Kush mountains. Eleven deposits of coal have been identified so far, ranging from lignites to high volatile bituminous, and of these, four are of potential importance in meeting future energy demands. At Karkar and Ishpushta, Baghlan and Bamiyan provinces, reserves are estimated at a combined total of 5.5 million tons of low grade coal and at Dara-i-Soof, Samangan province, some 75 million tons of coal are reportedly blocked out. The Sabzak deposit near Herat is said to contain reserves of nine million tons of coal. In general, Afghan coals (7,500-13,000 BTU) exhibit ash content up to twenty five percent with moderately high volatile matter (25-30%) and low sulfur (less than 1%).

Only the Dara-i-Soof, Karkar, and Ishpushta mines—all of which are State controlled—are in production, accounting for a combined annual output which has varied in recent years from 80,000 to some 160,000 tons. Most of this is consumed by industry, such as the textile plants, the cement and sugar factories. Dara-i-Soof coal is used for residential heating in Kabul and Mazar-i-Sharif.

The Karkar mine, located near a major road, about 240 kilometers north of Kabul, accounts for about seventy percent of all the employment in coal mining. Production is subsidized by the government partly because of high transportation costs.

In the future the Dara-i-Soof mine may well become the country's major source of coal north to Mazar-i-Sharif and south to Kabul. The mine-ability of the coal is considered good. However, because of its isolation, only about four thousand tons of coal are mined annually at Dara-i-Soof. To connect the mine with the hard surface road passing Samangan—Pul-i-Khumri would require about 152 kilometers of new road construction.

Afghanistan's present production of natural gas is concentrated in the north. Over a period of some fifteen years, sizable deposits of natural gas were developed with technical assistance from the U.S.S.R., the risk capital being supplied by the Government of Afghanistan.

Sweet natural gas was discovered in the Hauterivian cretaceous sandstone of the Yatim Tagh, Khwaja Gogerdak, and Khwaja Borhan fields with a proven reserves of some 50 billion cubic meters. Sour gas was discovered in the Jurassic limestone of Khwaja Gogerdak and Yatim Tagh. Recently additional gas deposits have been found in cretaceous sandstone near Sheberghan.[1]

The gas is being exported from Sheberghan to the U.S.S.R. through a 91.5 kilometer 820 millimeter pipeline to the Russian border at Keleft.

---

1. Majid, A. Q. Neft-e-Gas-e-Tabe-ie dar Afghanistan, published by the Ministry of Mines and Industries, (in Dari), Kabul, 1968, passim.

An additional 88 kilometer 325 millimeter pipline feeds gas to the chemical fertilizer plant at Mazar-i-Sharif. For the moment, Khwaja Gogerdak is the only producing field. The total past expenditure incurred in exploration is about $100 million and the construction cost of the exploitation and transportation installations comes to about $25 million. In recent years, sizable deposits of sour gas have been discovered, with estimated reserves running from 50-100 billion cubic meters.

Petroleum prospects appear to be more limited, although recently interest in Afghanistan was shown by some of the larger foreign oil concerns. Promising areas for petroleum exploration are located in the central and southern part of Afghanistan.[1] So far, Afghanistan has only discovered one small oil field with recoverable reserves of some three million tons. However, there is no commercial production to speak of at present. All of the country's petroleum requirements are met through imports from Iran, Russia, or Pakistan, depending on the region.

---

1. Schreiber, Alfred. et. al. "Geology and Petroleum Potentials of Central and South Afghanistan". The American Association of Petroleum, Geologists Bulletin, V. 56, No. 8, August 1972, pp. 1424-1519.

ANNEX E

ACTIVE PROJECTS UNDER THE 1967 PRIVATE INVESTMENT LAW
(As of June 1, 1974)

No.	Name and Product	Location City	Location Area
45/003	S. S. S. Kishmish Paki (raisin cleaning)	Mazar	Dashty Shadiyan
45/006	Saaed Industrial Co. (casing) (now known as Homa Casings)	Kabul	Qalacha
45/007	Soc. CLEMD (wine)	Kabul	Pul-i-Charkhi
45/009	Da Pashtani Yawali S. S. (raisin cleaning)	Mazar	Dashty Shadiyan
45/010	Afghan Mewa Samoon (raisin cleaning)	Kabul	Pul-i-Charkhi
46/021	Century Re-Rolling Mills (steel re-rolling)	Kabul	Pul-i-Charkhi
46/023	Arghandab Fruit Co. (raisin cleaning)	Kandahar	
46/031	Warasta Industrial Press (printing)	Kabul	Salang Wat
46/041	Shuaa Industrial Press (printing)	Kabul	Osmayi Wat
46/042	Hollywood Dry Cleaning (dry cleaning)	Kabul	Turabaz Khan
46/043	Newi Sayed Murtaza Nasawji (rayon weaving)	Kabul	Jangalak
46/048	Sherkate Sanati Tel Kashi (edible oil)	Herat	Pashtoon Pul
46/055	Saleh Metal Industries (venetian blinds)	Kabul	J. N. Pashtoon
46/056	Wazir Fruit Co. (raisin cleaning)	Charikar	
46/057	Ghulam Hassan Fariadi (tanning & garment mfg.)	Kabul	Sherpur
46/058	Pashtoon Food Processors Inc. (raisin cleaning)	Kabul	Darulaman
46/060	Kabul Felez (metal fabricating)	Kabul	S. Ghazni
46/062	S. S. Nasawji Muhayya (rayon weaving)	Kabul	Shar-i-Nau and Pul-i-Charkhi
46/067	Ahmed Silk and Textile (rayon weaving)	Kabul	Pul-i-Charkhi
47/069	Wais Fruit Products (raisin cleaning)	Kabul	Pul-i-Charkhi
47/074	Hakim Dry Cleaning (dry cleaning)	Kabul	Shar-i-Nau
47/075	Ahmadzada Container Co. (plastic bags)	Kabul	Pul-i-Charkhi
47/077	Nasawji Jalili (rayon weaving)	Kabul	Afshar
47/078	Da Amirzada Nasawji (rayon weaving)	Jalalabad	Rage Shahmard Khan

No.	Name and Product	Location City	Location Area
47/079	Bagram Fruit Co. (raisin cleaning)	Charikar	
47/081	Noor Ahmed Tile Co. (cement tiles, etc.)	Kabul	Karte Char
47/082	S. S. Roghaniat Afghanistan (lubricants)	Kabul	Pul-i-Charkhi
47/088	AMU Textile Co. (rayon weaving)	Kabul	Pul-i-Charkhi
47/093	Farhad Dry Cleaning (dry cleaning)	Kabul	Dehmazang
47/097	Ariana Felez (metal fabricating)	Kabul	Jangalak
47/098	Sherkate Tazamoni Nasawji Habibullah and Balmarkandas (rayon weaving)	Kabul	Pul-i-Charkhi
47/100	M. Bahador Textiles (rayon weaving)	Kabul	Pul-i-Charkhi
47/108	Afghan Tanning, Dyeing and Garment Mfg. Corp. (handicrafts)	Kabul	Dehmazang
47/110	Siddiqi Laboratories (pharmaceuticals)	Kabul	Jangalak
47/111	Zamiri Knitting Co. (knitted goods)	Kabul	S. Shawzda
47/113	Sherkate Pickle Sazi Aqcha (pickled skins)	Aqcha	
47/116	Osman Textile Co. (rayon weaving)	Kabul	Khairkhana
47/117	Nangarhar Nasawji Sahami Sherkat (rayon weaving)	Jalalabad	
47/118	Aminzada Rayon and Cotton Textile Mill (rayon weaving)	Kabul	Pul-i-Charkhi
47/119	Noman Metals and Motor Workshop (workshop)	Mazar	
47/121	Abdul Rauf Maqsudi Textile Mill (rayon weaving)	Kabul	Taimany Wat
47/123	Da Sadozai Textile Co. (rayon weaving)	Jalalabad	Rage Shahmard Khan
47/125	Shahabuddin Yasawi Textile (rayon weaving)	Kabul	Taimany Wat
47/126	AHU Leather and Shoe (tanning and shoes)	Kabul	Slaughter House
47/127	Sherkate Limited Pickle Sazi (casings)	Kabul	Shahshahid
47/132	Sherkate Sahami Mink (mink raising)	Herat	
47/135	Haji Gulzada & Mohd. Zia Textile Mills (rayon weaving)	Kabul	Pul-i-Charkhi
47/138	Ahadi Textile Co. (rayon weaving)	Kabul	Pul-i-Charkhi
47/140	S.S. Deri Barsok (casings and pickled skins)	Kabul	Pul-i-Charkhi
47/141	Homa Industrial Press (printing)	Kabul	Shar-i-Nau
47/147	Sufi Yakh Sazi (ice)	Kandahar	
48/153	Faizy Plastics (plastic products)	Kabul	Mohd. Jan K. Wat
48/159	Haschmat Sausage Co. (sausage)	Kabul	Guzargah

No.		Location City	Area
48/165	Mazaruddin Textile Co. (rayon weaving)	Kabul	Pul-i-Charkhi
48/170	CAM Coca-Cola Bottling (Coke and Fanta)	Kabul	Afshar— Darul-aman
48/171	Da Afghan Body Mfg. (bus bodies)	Kabul	Chaman Housori
48/175	Khalil Detergents	Kabul	Pul-i-Charkhi
48/182	Mountain Steel Mills (re-rolling and shapes)	Kabul	Pul-i-Charkhi
49/186	Maiwand Corporation (pickled skins and casings)	Kandahar	
49/187	Samir Industries (foam rubber, mattresses)	Kabul	Pul-i-Charkhi
49/190	Kochi Sarmano Factory (pickled skins and casings)	Jalalabad	
49/193	Azami Plastic Bag and Pipes (plastic bags)	Kabul	Guzargah
49/194	Da Abdul Ahad Plastic & Rubber Factory (plastic footwear)	Kabul	Pul-i-Charkhi
49/195	Ahmed Plastic Co. (plastic bags)	Kabul	Pul-i-Charkhi
49/196	Maqsudi Plastic Co. (plastic bags)	Kabul	Taimany Wat
49/198	Hoechst Afghanistan (pharmaceuticals)	Kabul	Pul-i-Charkhi
49/199	Watan Plastic Co. (plastic footwear)	Kabul	Pul-i-Charkhi
49/200	Zarabi Plastic Industry (plastic products)	Kabul	Pul-i-Charkhi
49/201	Sadaqat Shoe Factory (leather shoes)	Kabul	Charahi Ansary
49/204	Herat Ice Factory (ice)	Herat	
49/209	Pamir Felez (metal furniture)	Kabul	Shar-i-Nau
49/213	Rokai Beekeepers (honey)	Kabul	Jade Maiwand
49/216	Pashtoon Container (plastic bags)	Kabul	Darulaman
49/217	Karim Knitting (knitted goods)	Kabul	Pul-i-Charkhi
49/218	Afghan Business Machines (data processing)	Kabul	Hotel Intercon.
49/220	Afghan Bone Meal (bone meal)	Kabul	Pul-i-Charkhi
49/222	Pashtoon Ice Co. (ice)	Kandahar	
49/224	Aria Battery Ltd. (batteries)	Kabul	Shar-i-Nau
49/226	Mihan Felez Corp. (steel profiles, etc.)	Kabul	Pul-i-Charkhi
50/231	S.S.S. Afghan (soap)	Kabul	Pul-i-Charkhi
50/234	Coopers and Lybrand (accounting)	Kabul	Wazir Akbar Khan
50/237	Afghan Chemical and Engineering (insecticides, paint)	Kabul	Pul-i-Charkhi
50/238	Khanna and Annadhanam (accounting)	Kabul	Shar-i-Nau
50/239	Yaqub Leather Industry (leather)	Kabul	Shewaki
50/240	Khan Laundry and Dry Cleaning (dry cleaning)	Kabul	Karte-Se
50/247	Sayed Murtaza Nakhtabi (rayon yarn spinning)	Kabul	Jangalak

No.	Name and Product	Location City	Area
50/249	Pashtoon Nut Processing (nut processing)	Kabul	Shar-i-Nau
50/251	Talib Felez (nails)	Kabul	Gozergah
50/253	Spiaf Nut Processing (nut processing)	Kabul	Pul-i-Charkhi
51/260	Herai Plastic (plastic shoes, etc.)	Kabul	Pul-i-Charkhi
51/263	General Afghan Pustincha (tanning & garments)	Kabul	Qala-i-Shada
51/264	Kabul Plastic (plastic shoes)	Kabul	Pul-i-Charkhi
51/265	Millie Plastic (plastic shoes)	Kabul	Pul-i-Charkhi
51/276	Kandahar Raisin Processing (raisin cleaning)	Kandahar	
51/277	Wais Tanning and Fur Industry (tanning)	Kabul	Pul-i-Charkhi
51/284	Afghan Everest Packaging Industry (cardboard cartons)	Kabul	Pul-i-Charkhi
51/286	Kabul Textile (rayon weaving)	Kabul	Pul-i-Charkhi
51/289	Kandahar Leather Co. (tanning)	Kandahar	
51/294	Arsalaic Bee and Honey (honey making)	Kabul	Karte Parwan
51/315	Industrial Development Bank of Afghanistan	Kabul	Jade Maiwand

Source: Investment Committee of Afghanistan

ANNEX F

EXTERNAL ASSISTANCE TO AFGHANISTAN, 1963-73

During the 1963-73 decade, the number of aid donors increased substantially but the total amount of bilateral aid decreased as compared to the previous decade. This was due in part to Afghanistan's failure to mobilize more domestic resources as well as to a relatively rapid increase in the country's external debt. However, this decrease was compensated by a substantial increase in multilateral aid.

During most of the decade, well over twenty donor countries were engaged in various forms of technical and economic assistance. Technical assistance accounted for roughly $20 million a year during the period in question. During most of the Third Five Year Plan period, about two thousand foreign technicians worked in Afghanistan engaged in some three hundred evelopment projects, some of them quite small, and often lacking proper coordination. At the peak of their involvement, about half of these were Russians; next came about two hundred and thirty Chines, two hundred United Nations experts, one hundred and fifty West Germans, one hundred and twenty Americans, ninety French, sixty Indians and a sprinkling of experts from other Western and Socialist Bloc countries, as well as some two hundred and fifty volunteers.

The projects covered by these technicians ranged over a wide area of activities such as irrigation, agriculture, animal husbandry, regional and national revenues development, electric power, health and education, forestry, police training, transport and communications, industrial development, export promotion and economic planning, to name only a few.[1]

During the 1963-73 period, the total availability (not the disbursements) of loans and grants came to well over $70 million a year. Aid was largely provided by the four major bilateral donors, the Soviet Union, the United States, the Federal Republic of Germany (FRG) and the People's Republic of China (PRC) as well as by the United Nations system. The table on the next page shows the contributions made by the major bilateral aid donors in more detail.

---

1. Precise data on foreign aid to Afghanistan during the period covered are not available because of the reluctance of several aid donors to furnish them and the incompleteness of government records. Hence, most of the data provided in the subsequent pages are based on informal sources. More recently, since 1969, the U.N.D.P. Mission to Afghanistan has started to prepare Annual Reports on aid from the various sources which have also been utilized in preparing this brief, and by definition, somewhat incomplete review.

EXTERNAL ASSISTANCE COMMITMENTS TO AFGHANISTAN, 1963-73 BY THE MAJOR BILATERAL AID DONORS

(in millions of dollars)

1. United States

a. Sector Assistance, Grants: (agriculture, private enterprise, transportation, education, management, regional development, population and health, technical support, etc.)	$ 88.1
b. Sector Assistance, Loans: (agriculture, transportation, management, regional development)	$144.3
c. Commodity Grants	$ 77.8
d. Commodity Loans	$ 22.1
GRAND TOTAL	$332.3

Source: USAID Mission to Afghanistan

2. U. S. S. R. (excluding military aid)

Loans and Grants, including technical assistance, by major agreements:

(in millions of U. S. $ equivalent)

Credit Agreements (by years)	Items Financed	Amount (sub-totals)	Total
1963	Natural gas industry,	$38.9	
	Industry development, vehicles and machinery	$ 4.0	
	Commodity credits	$ 4.5	$47.4
1964	Prefabricated housing plant	$11.1	$11.1
1965	Commodity credit	$11.1	
	Agricultural machinery	$ 3.0	$14.1
1966	Irrigation development	$10.3	$10.3
1967	Agricultural machinery	$ 5.3	$ 5.3

Credit Agreements (by years)	Items Financed	Amount (sub-totals)	Total
1968	Electric power, transportation, natural gas industry, chemical fertilizer plant, geological work, continuation Microrayon, short-term projects, commodity assistance, trade credit, etc.	$126.7	$126.7
1971	Fertilizer Plant (Mazar-i-Sharif)	$ 5.0	$ 5.0
1972	Electric power, transportation and telecommunications, grain elevator, industrial development, agriculture, Polytecnic Institute, etc.	$ 96.0	$ 96.0
1973	Open credit	$ 28.0	$ 28.0
	GRAND TOTAL		$343.9

Source: Ministry of Planning

3. Federal Republic of West Germany (FRG) (im millions of DM)

a.	Sector Assistance Grants: (technical assistance in geology, public health, education, regional development, economic planning, police training, telecommunications, electric power development)	DM 174.0
b.	Sector Assistance Loans: (electric power development, telecommunications, wheat storage, fuel tanks, private industry)	DM 190.2
c.	Commodity Loans	DM 10.0
d.	Other Assistance (Mahipar, Paktya, wheat, etc.)	DM 36 . 2
	GRAND TOTAL	DM 410.4

Source: Ministry of Planning

4. People's Republic of China (PRC)	(in millions of U.S. $ equivalent)
1965 Credit Agreement (for eight assistance projects in the area of agriculture and irrigation)	$28.0
1971 Credit Agreement (for additional mutually agreed upon development projects)	$44.0
GRAND TOTAL	$72.0

Source: Ministry of Planning

Soviet aid during the period was providing continuing support to some of its longer-term projects in the area of transportation, natural gas, power and irrigation development with a lesser emphasis on education, health and industrial development. The total amount of its loan and grant commitments during the period in question was about $344 million, mostly in loans, including a technical assistance component.

U.S. aid totalled a little over $332 million during the entire period. Its principal emphasis was in the areas of education, technical support services, agriculture, including the Helmand Arghandab Valley Regional Development Project, economic planning, public administration, public health and family planning, and development of the private industrial sector as well as the usual commodity inputs. The aid balance between the U.S.S.R. and the U.S. remained largely unchanged since, with roughly equal amounts provided, Soviet aid kept concentrating more on infrastructural projects while the U.S. programs, broadly speaking, were more concerned with human resources development.

West German aid, coming to some DM 410 million during the period, was largely concentrated in the areas of education, regional development, economic planning, geological and hydrological investigations, police training, telecommunications and electric power development.

Assistance commitments from the People's Republic of China came to about $72 million during the period, largely concentrated in the areas of irrigation, agriculture, animal husbandry, sericulture, pisciculture, industry and natural resources development. Training was provided on the job while imported equipment and supplies needed for projects were met under credit agreements.

In the case of the U.S. and FRG, most of the aid mentioned had all been disbursed by the end of 1973. However, a substantial part of the U.S.S.R. and PRC loans had not been disbursed by that time. In addition to the above mentioned inputs, a relatively large number of Afghans were trained in the various donor countries, except China.

Aid under the U.N. system, totalling well over $30 million during the period, was provided by the U.N.D.P. and the specialized agencies such as FAO, UNESCO, WHO, UNIDO, ILO, WFP, UNICEF, etc., for a wide variety of projects, largely concentrated in the areas of social security and other social services, agriculture and irrigation development, health and education, transport and communications, industry, international trade and science and technology.

Both the World Bank (IBRD) and the Asian Development Bank (ADB) became more active in Afghanistan towards the end of the 1963-73 period as evidenced by the granting of several IBRD loans such as $5 million for the reorganization of the Agricultural Development Bank, $5 million for road maintenance equipment, $9 million for the Herat slaughterhouse complex, $2 million for the Industrial Development Bank, $5 million for the Kunduz/Khanabad irrigation project, $2.5 million for aviation communications as well as the ADB loans of $5.15 million for agricultural development and $14.9 million for the construction of the Helmand Valley road which would ultimately connect Afghanistan's southwest with the Iranian highway system. A substantial part of these loans had not been disbursed by the end of 1973.

As regards the lesser bilateral aid donors, French bilateral assistance which began in 1922 has been largely concerned with education; India worked in education, agriculture and public health; assistance from the U.K. emphasized education and agricultural surveys. Japan was concerned with studies on provincial water systems development, hospital services and training. Czechoslovakia emphasized industry, natural resources development, health, social security and education. Sweden has been providing assistance in rural agricultural credit and trade promotion. Kuwait provided a loan for the purchase of some 30,000 tons of fertilizer, while Canada, Pakistan, Poland, Yugoslavia, Finland, Denmark, Switzerland, Bulgaria, the Netherlands and Turkey all provided some sort of minor help during the 1963-73 period. In most of the cases, this help was connected with drought relief.

In addition, there were inputs by a number of voluntary agencies such as the U.S. Peace Corps, the German Volunteer Service, the U.K. United Nations Association, Care Medico, the International Afghan Mission (medical services), the Asia Foundation and the Afghan American Educational Commission.

The potential gross availability of foreign credit assistance during the Fourth Five Year Plan period was about $447 million, including a $127.4 carryover from credits which were agreed upon under the Third Plan. However, debt service would reduce these gross availabilities by some $185 million so that in reality projected net availabilities of foreign credits during the years 1972-76 reached only about $262 million.[1]

---

1. Afghanistan, Development Assistance 1972, Annual Report prepared by the United Nations Development Programme, Kabul, 1972, (mimeographed), pp. B1-2.