

## The Role of the Private Sector in Afghanistan

### Take Aways

- Establishing greater security in Afghanistan is dependent in part on improving the socioeconomic conditions of local communities and their ability to sustain themselves through income generation.
- Development of the private sector can improve good governance, economic prosperity and sustainable local and national infrastructure in Afghanistan.
- In a country where unemployment is estimated to be as high as 40%, improving the business environment is vital for creating jobs and tackling poverty.

### To Quote

"This [complexity of operations] just strikes at the heart of something I've thought for a long time: It's all about economics. Can you create a standard of living that improves over time?" **ADM Mike Mullen**, Chairman of the Joint Chiefs of Staff. ([Fast Company](#))

### Key Business Sectors

#### Telecoms

- \$1.2 billion of Foreign Direct Investment in the telecoms sector.
- Development of strong telecoms networks in Afghanistan is promoting an enabling environment for commerce.

#### Natural Resources

- The country's mineral resources are estimated to be worth \$1 trillion.

#### Agriculture

- Agriculture is Afghanistan's most important industry, generating approx. 30% of GDP.

### Possible Questions

- What preparation and plans are in place for engaging and supporting the private sector in Kandahar as part of NATO's planned campaign this year?
- How can U.S. and NATO forces in Afghanistan bring services such as technology and training programs to Afghan communities that will help improve local business development?
- How effective are U.S. government efforts such as the [Economic Growth and Governance Initiative \(EGGI\)](#) in supporting and strengthening the role of private business in Afghanistan?

### Key Issues: The Challenges

#### The Economy – Challenges

- Tax administration and political management of the economy remain unpredictable for business interests.
- Scarce access to finance is one of the greatest obstacles to doing business, according to [World Bank research](#).

#### Afghan Society – Challenges

- Whilst unemployment is high, skilled labor is scarce; technical and engineering knowledge is low; the literacy rate is 28%.
- Local communities are weakened by decades of instability, creating poor environments for private enterprise.
- Poor public health and problems such as drug use debilitate the workforce.

#### Security – Challenges

- The latest [World Bank Enterprise Survey](#) quotes crime and disorder as the number one constraint for doing business in Afghanistan.
- Ongoing violence and armed conflict inhibits workforce mobility and
- Insurgents have threatened private companies and attacked facilities such as mobile telecoms towers.

#### Infrastructure – Challenges

- Essential business services such as electricity, water and transport are still limited in Afghanistan. Where services are available, frequent breakdowns of the network can be crippling for business operations.
- The estimated cost for transporting goods and raw materials in Afghanistan is 25-50% of their sale price. In most healthy economies this figure is less than 10%.

#### Regulation and Corruption – Challenges

- Many laws and regulatory functions governing key commercial issues such as tax, insurance, patents, piracy and anti-trust are still unpredictable or non-existent.
- Issues requiring arbitration are often dealt with on a case-by-case basis without businesses being able to rely on or refer to standard procedures.
- The lack of institutional capacity, due-processes and established systems of regulation and administration leave many activities open to individual manipulation and corruption.

### Key Issues: Opportunities

#### The Economy – Opportunities

- Corporate income tax is a major contributor to Afghan fiscal revenue.
- Private sector participation in federal fiscal processes can spread accountability and confidence in government functions.

#### Afghan Society – Opportunities

- Private sector job creation lowers unemployment and injects cash into local economies.
- Business-led programs provide basic and technical training and vocational development for employees.
- Large private sector projects are building facilities that support local social welfare.

#### Security – Opportunities

- Businesses provide jobs for individuals who may otherwise join the insurgency.
- Private companies fund significant measures to increase security in the locations in which they operate, thus benefiting the whole area.
- Business activity creates stronger penetration of legitimate interests into ungoverned areas and societies.

#### Infrastructure – Opportunities

- Industrial Parks, such as those developed outside of Kabul, Mazar e-Sharif and Kandahar provide hubs of high quality infrastructure and services.
- Projects such as the Aynak Copper Mine are bringing a multi-billion dollar investment (from China) that will include building a railway line, new roads, a power plant and a village for workers with schools, hospitals and mosques.

#### Regulation & Corruption – Opportunities

- Pressure and support from private business can help to reform and institute oversight and good practices.
- For example - a recent improvement in the import license application process, which previously involved 42 steps, 58 signatures, and several weeks of processing, now requires only three steps, six signatures, and two days to process.
- Less than 10% of firms identify corruption as their greatest obstacle to business.