



Afghanistan: Economic Development Challenges & Solutions

Jeffrey Grieco, President & CEO
Afghan-American Chamber of Commerce (AACC)

Presented at NAPA on 8/25/17



Today's Presentation

- AACC Backgrounder
- Situation Analysis of Afghanistan Economic Development Challenges
- Private Sector Development Indicators
- Solutions Analysis



AACC Background

- **Founded:** October 24, 2002, U.S. incorporated, Non-Profit 501.C.3
- **Founding Principle:** Establishing a market-oriented economy in Afghanistan with government institutions that help strengthen and regulate private sector-led economic development
- **Initial Focus:** Worked with USAID and DOD (TFBSO) to prioritize private sector investments and provide training for business-focused economic activities.



AACC Mission & Services

Mission: *AACC is the leading organization facilitating U.S.-Afghanistan business, investment, and trade relations through a combination of program, education and informational activities.*

- ***Educating*** about a Market-Oriented, Business Friendly Economic Environment in Afghanistan
- ***Insure*** Afghanistan and its private sector, market-led economic development remain a priority for U.S. and Afghanistan policymakers, business leaders and influencers
- ***Serve as bilateral facilitator*** and institutional voice for private sectors.



AACC Business Model

- **Business Matchmaking Conferences:**
 - 13 years of sustained success with sectoral & policy focus
 - Over 300 Afghanistan and U.S. businesses attend annually
 - We receive no USG support (currently).
- **Diversifying** into more AACC events, programs and informational activities (ICT, U.S. Chamber, etc...)
- **Current Challenges:**
 - Seeking longer-term program support;
 - Need greater U.S. Chamber partnership; and
 - More U.S. MNC support either programmatically or financially -- inside Afghanistan and here in Washington.



AACC Programs

Business Services/Support

- Business Matchmaking Conferences/Events
- Sector-Focused Seminars
- Washington, Dubai, Istanbul, and Kabul-based policy & practicum programs
- Donor Partnerships:
 - E.G. USAID, GTZ, U.S. DOC

Business Training & Education

- Promoting women in private sector development
- National Surveys--Business, Industry and Economic
- Vocational Training
- Business Services Training
- Trade Promotion Training, e.g. GSP implementation
- Partnerships with Afghanistan National and Regional Chambers



AACC Leadership

Board of Directors

- General Arnold Fields, USMC (Ret.), Former SIGAR
- James Bullion, Former Head of TFBSO, DOD
- Lida Hedayat, Tetrattech
- Amb. Said Jawad, Former Afg. Amb, to U.S.
- Nadim Amin, ARG Corp.
- Noorullah Delawari, Frmr. Central Bank Gov. Afgh. & Founder, AISA
- Donald Ritter, Pres. Emeritus
- Qasim Tarin, Electro Imaging Systems Inc.
- William Joern, Tech. Executive

Executive Committee

- Sulaiman Lutfi, Board Chairman
- Jeffrey Grieco, President & CEO
- Leslie Schweitzer, VP & Chair, FAUAF
- Yama Azami, Treasurer
- Doug Brooks, Secretary
- Assad Mattin, Oxus Group

Of Counsels: Mr. Enayat Qasimi, Esq. & Dr. Robert Voetsch



AACC Partnerships

Donor Partners:

- USAID
- U.S. DOC
- U.S. DOD
- U.S. TDA
- DFID
- GTZ
- JICA
- ADB
- World Bank

Afghanistan Country Partners:

- Afghanistan Chamber of Commerce & Industries (ACCI)
- Int'l Chamber of Commerce (ICC-Afgh.)
- Afghanistan Builders Association (ABA)
- Afghan Business Council in Dubai
- Afghan Investment Support Agency (AISA)



AACC Action Plan

- **Continue Diversification of Business Model:**
 - Inside U.S., Internationally and inside Afghanistan
- **More public policy activities** and education programs
- **Establish Initial U.S. Chamber Partnership**
- **Conduct 2018 trade/investment mission** (U.S. firms)
- **Seek new U.S.-Afghanistan TIFA Agreement**
- **Draft, Publish and Advocate for new consolidated Bilateral Tax, Trade, and Investment Agreement**



Afghanistan

Economic Development Challenges & Solutions

Situation Analysis



Situation Analysis: Key Drivers of Afghanistan State Fragility

Driver #1: Weak State and Political Institutions:

- Without clear mandates they depend heavily on decisions driven more by “Deep State” (my words), “intra-elite” (WB words) bargaining than by effective use of resources or accountability to citizens or representative organizations.

Driver #2: Persistent Taliban insurgency bolstered both by external forces (i.e. Pakistan, Iran) and poor/slow government implementation.

Driver #3: Internal ethnic divisions have been exacerbated during past decades of conflict

- Thus tendency to distribute government positions and access to resources through patronage networks.



Situation Analysis: Security

- **Dramatic increases in civilian casualty levels** since 2014 have weakened faith in GIRoA, NUG and Ghani Government
 - 3,500 civilian deaths and 8,000 wounded in 2016 alone.
- **Publicly GIRoA is said to control 60% of nation but privately some business leaders say 35-40%.**
- **Economic impact of increased population displacement (IDPs of 1.4 mil.) and refugee returnees (2.5+ mil.)** is having deleterious security impact
- **New Trump Administration “Afghanistan Strategy:**
 - should increase security over next 24 months,
 - BOTG in 2 weeks, 16,000 U.S. troops and DOD support staff
 - Likely matching NATO force commitments:
 - Will help address Driver #2 but won’t fix Drivers #1 and #3



Situation Analysis: Governance

- Overall NUG & Ghani Administration not performing well according to donors.
 - Too many internal political and personnel conflicts.
 - Too much micromanagement, too slow.
 - Thus far, not effective at scaled implementation
- Major donor nation commitments not met.
- PFM ratings by PEFA a “D” in 2013, new rating for 2017 not expected to be better.
- Government corruption still huge issue but changes are happening.



WB Now Convinced that Infrastructure & Economic Investments are Bad for Growth

- New economic stimulus spending under current fiscal trend line is not sustainable.
- Instead NUG considering reshuffle of composition of public sector spending by:
 - A) “Reprioritizing” resources for most important spending needs;
 - B) Investing resources only in sectors that have maximum economic impact; and
 - C) Improving efficiencies of public expenditures to achieve greater cost savings.
- May 2017 WB Report quotes Asia Foundation Survey by claiming the survey shows Afghans are anti-free market, anti-private sector (78%) because none of that has worked thus far.
- WB feels the “multiplier effect” of spending on infrastructure, energy and agriculture is negative (-1.1). Therefore, more spending on health, education and cash transfer is better at this time.



Situation Analysis: Economic Trends at Crisis Level

Bad News

- Ineffective NUG Governance
- Growing Insecurity
- Poor Economic Growth
- Growing Unemployment: 30%+
- Surging IDP & Refugee Returnee Resettlement Crisis
- Afghan Gov't Spending as % of National GDP is too low and too slow
- Capital Not Circulating:
- Continued Poor Access to Electricity
- Little Substantive For. Direct Investment
- Gross Trade Imbalance
- Weak (Licit) Regional Export Trade
- Worsening Current Account Balance
- Dramatically Increased Poppy Cultivation & Growing Food Insecurity

Good News

- Achieved WTO Accession
- Revenue Collection is Up
- Fiscal State is OK
- Education/Teacher Training Good
- Maternal & Child Death Rates Down
- Greater access to health care and vaccines
- Sub-Regional Growth Indicators OK
- Individual and Corporate Tax Rates



Afghanistan: Key Economic Indicators

Key Economic Indicators	2014	2015	2016
GDP (with PPP)	\$62 B	\$63 B	\$64 B
GDP Real Growth Rate	1.3%	0.8%	2.0%
GDP Per Capita (in 2016 dollars)	\$612	\$584	\$561
Gross National Savings as % of GDP (U.S. =19.1%)	20%	23.3%	23%
Imports of Goods & Services (GDP composition by end use)	-46%	-49%	NA
Exports of Goods & Services (GDP composition by end use)	6.6%	7.1%	NA
Inflation Rate (consumer prices)	4.67%	-1.5%	4.5%
National Budget (deficit/surplus as % of GDP)	-1.8%	-.7%	-25.1%
Tax Collection and Other Fees (as % of GDP)	8.7%	10.3%	10.8%
Government Spending as % of GDP (U.S. approx. 20% Federal spending.)	26.4%	26.4%	26.4%



Situation Analysis: Donor Relations

- **Set backs:** Previous foreign policy & security decisions were a huge set back for Afghanistan security and economic development.
 - Increased insecurity unleashed a series of internal and external displacements and refugee flows that spread regionally, then globally and ultimately increased national insecurity, poverty, food insecurity, dramatically increased poppy production, joblessness and slowed private sector development.
- **Continued security & economic support was reluctantly given:**
 - Warsaw (\$4.5 bil.) and Brussels (\$3.8 bil.) International Donor Conferences pledged to continue economic and security assistance through 2020 but ----
- **Despite political veneer of continued international support:**
 - Donors reached turning point before Brussels Conference.
 - Grave concern with National Unity Government's ability to manage its own development and has evolved into a "***Trust Fund Relationship.***"
 - Examples: MoF reports showing only 35% of development budget being expended for mission critical infrastructure and economic development projects and anger among Afghanistan parliamentarians resulting in dismissal of seven ministers in 2016.



Trade Relations: Partners & Commodity Trade Composition

Imports:

- Commodity Trade:
 - Machinery and other capital goods;
 - Food;
 - Textiles;
 - Petroleum products.
- Partner Nations:
 - Pakistan 39.1%;
 - India 9%;
 - US 8.4%;
 - Turkmenistan 6.3%;
 - China 6.1%;
 - Kazakhstan 6%

Exports:

- Commodity Trade:
 - Opium;
 - Fruits and nuts;
 - Handwoven carpets;
 - Wool and Cotton;
 - Hides and Pelts;
 - Precious and Semi-Prec. Gems.
- Partner Nations:
 - India 43.6%;
 - Pakistan 28.3%;
 - Tajikistan 7.4%.



Afghanistan: Main Economic Sectors

- **Agriculture 22%**

(Note: does not include opium production)

- **Industry 22%**

- **Services 56%**

(2015 est.)

- **Main industrial sectors:**

- Small-scale brick production;
- Textiles and handwoven carpets;
- Soap;
- Furniture;
- Shoes;
- Fertilizer;
- Apparel;
- Food products;
- Non-alcoholic beverages;
- Mineral water;
- Cement;
- Natural gas;
- Coal;
- Copper.

Source: CIA Fact Book Online (2016)



Afghanistan: Economic Development Challenges & Solutions

Private Sector Development Indicators



GIROA Commitments to Private Sector-Led Development and Market Economy

Karsai Government

- **Afghanistan National Development Strategy (ANDS), 2008-2013:**
- “Reduce poverty, ensure sustainable development **through a private sector-led market economy** and improve human development indicators.
- “**The market based economy is enshrined in the Constitution, article 10, which states that:**
 - ***“The State encourages and protects private capital investments and enterprises based on the market economy and guarantees their protection in accordance with the provisions of law.”***
- **Three components in ANDS PSD strategy:**
 - 1) Strengthening enabling environment;**
 - 2) Expand opportunities for private investment in infrastructure and natural resources development; and**
 - 3) Concerted private sector investment promotion.**

Ghani & National Unity Gov’t (NUG):

- ANPDF (National Peace and Dev. Framework) 2017-2021
- **Goals for promoting private sector development are:**
 - 1) Building efficient and competitive markets;**
 - 2) Enabling SMEs, particularly export-focused Afghan-owned firms; and**
 - 3) Encouraging domestic and international investment.**
- “Our tools for creating an enabling environment for the private sector include:
 - ***Assisting Afghan firms to comply with ISO standards;***
 - ***Making trade support services relevant and accessible and **advancing customs agreements with neighboring countries;*****
 - ***Strengthening commercial attachés in Afghan embassies and **advancing bilateral and multilateral trade agreements;*****
 - ***Strengthening transport and logistics sector and promoting local procurement and allowable import substitution;***
 - ***Improving and systematizing private sector survey instruments;***
 - ***Supporting/building industrial parks and special economic zones and **reviewing licensing req.s and eliminating unnecessary ones;*****
 - ***Providing tax incentives and legal protections for investments and assets to investors; and establishing one-stop shops offering streamlined electronic business admin. services...***



Survey of Private Sector Indicators

- **2017 WB Doing Business:** Since NUG, rapidly worsening bus. indicators including:
 - protecting investor (189),
 - trading across borders (172),
 - constr. permitting (185)
- **2017 Economic Freedom Index:**
 - Ranks Afg. #163 as “Repressed” and critiqued for prop. rights protection, gov’t integrity, investor and financial freedoms, monetary and business freedoms.
 - But complemented for fiscal health and tax burden levels
- **Improved Regional Economic Integration:**
 - Chabahar Port (Iran, India and Afgh.)
 - Start of freight train to Hairatan port from China via Kazakhstan and Uzbekistan.
 - Turkmen part of trilateral railway in Turkmenistan
 - Salma Dam inaugurated by India & Afgh.
- **Afghanistan Corporate Survey by WB:** says biggest obstacles include:
 - Pol. Instability (25%);
 - Corruption (18%);
 - Access to land (15%);
 - Access to finance (12%);
 - Access to electricity (11%)
- **80-90% of economic activity is still informal:**
 - thus incentives to enter regulated/formal economy are low or disincentives are high.
- **Economic Drain of Illicit/Poppy economy:**
 - discourages private and public investment by fueling insecurity, violence and insurgency.

GIRoA Business Tax Analysis:

WB Doing Business Report 2017



Confiscatory taxing of bus. receipts and corp. income. Also, current GIRoA total tax rate of 48% is marginally higher than U.S. and Iran at 44% but much higher than regional neighbors/competitors: Qatar 11%, UAE 16%, Kazak. 29%, Kyrgyz. 29%, Pak. 33%. Uzbek. 38%, Azerb. 39%, with two major outliers: India 60% and China 68%.

Tax or mandatory contribution	Payments (number)	Notes on Payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on TTR
Business receipts tax	4		78	4%	sales	47.14	
Interest tax	0	withheld		20%	interest income	0.51	
Tax on transport	1			AFN 7,500	fixed fee	0.4	
Vehicle registration tax	1				various rates	0.21	
Fuel tax	1				included into fuel price	0	small amount
Corporate income tax	1		77	20%	taxable profit	0	
Personal income tax	12		120		taxable income	0	withheld
Totals:	20		275			48.30%	



Afghanistan: Economic Development Challenges & Solutions

Solutions



Start by Crafting Afghanistan's First Private Sector-led, "Private Sector Development Plan"

- **Develop a New "Private Sector Development Plan" for Afghanistan (2018-2023)**
 - **What?** A strategic plan to help empower private sector development.
 - **Who?** Crafted by leaders of Afghanistan's private sector, in partnership with U.S. private sector and appropriate Afghanistan and Donor Government leaders.
 - **Why?** To assert private sector leadership principles within Afghanistan's government, economy and economic decision making frameworks.
 - **How?** Conduct a new high level national business survey and identify private sector development priorities, challenges and opportunities.
 - **Then?** Translate those inputs into a strategic plan which identifies the Goal, Objectives and Private Sector Program Pillars. Then a consortium of Afghanistan business associations and representative organizations will meet to develop a private sector focused "Action Plan" for tactical implementation in partnership with the public and private sectors.
 - **How do we measure success?** By creating a transparent online "Results Framework" to measure real time "Outcomes" of the plan.



Emergency Solutions to Private Sector Development

- **Rapidly increasing the flow of capital and available project financing within the Afghanistan private sector should be an urgent priority:**
 - The World Bank-IFC-MIGA “Private Sector Window” provides tools for “de-risking project financing”
- **Effectuated through greater use of:**
 - **Guarantees:** restructured partial risk guarantees accounting for local context/market specific risks and according to private sector needs;
 - **First Loss Risk Sharing:** facilitating expansion in critical job creating areas like energy, ICT, mining and extractives, etc...; and
 - **Blended Finance:** a) providing a hedge for currency devaluation for equity investments; b) reducing local currency pricing; and c) subsidized pricing for credit and loan products.
- **Must enable entrepreneurs to better access financing and debt borrowing**
 - to increase productivity , build capacity and expand operations
- **Focus on improved business enabling environment**
 - especially for SMEs who drive employment nationally.
 - Especially for ICT, Energy and Mining
- **Focus now on PPP investments in “Priority Sectors” targeting ICT, Mining/Extractives and Energy/Power:**
 - Based on maximized employment impact and private sector development engineering.
 - Better promote and implement major private investment opportunities.
- **Time to “Think Big” by developing major private sector “consortia” business-led investment concessions:**
 - where private capital is committed within closed consortia in return for long term public concessions and risk mitigation guarantees.
 - Consortia includes: Afghan Industry leader, Multinational Industry leader, WB/MIGA, ADB, USAID DCA and GIROA Partners.



Structural Solutions to Private Sector Development

- **To drive faster private sector-led growth, prioritize or identify industrial champions within key industries/sectors:**
 - Help drive sizable and immediate public-private capital investment and infrastructure development through large Afghanistan firms leading to greater employment and revenue generation (DRM). Start with ICT sector.
- **As President Trump and Secretary Tillerson have stated, Afghanistan’s people should decide whether or not to reform their governance system. Most analysts feel it needs to be more inclusive, efficient, accountable and effective.**
 - The private sector should form recommendations on helping to do that as well.
- **Expand Vocational Training in Regions with highest private sector growth:**
 - Identify and partner (PPP) with various vocational and technical training institutes within Afghanistan regions that are growing their private sector economies the fastest. Us donor tech. assistance grant making vehicles.
- **A new “Private Sector Development Plan” should develop a long-term investment promotion strategy:**
 - Based on areas of Afghan. industrial competitiveness, resource capacities, comparative advantage analysis and regional trade and economic integration strategy.
- **Anti-Corruption and PFM capacity improvements must be addressed and resourced sustainably.**
- **Continue President Ghani’s regional economic and business assistance strategy.**



Structural Solutions to Private Sector Development

Improve U.S.-Afghanistan bilateral economic relationship through more active, concerted actions. For example:

- **Help co-sponsor (with AACC) a 2018 trade and investment mission to Afghanistan:**
 - With major U.S. firms looking at energy/power, mining/extractives, agribusiness and ICT.
- **Complete a new, updated U.S. - Afghanistan Trade & Investment Framework Agreement (TIFA)**
 - BUT with private sector participation built into the framework of a new bilateral economic relationship.
- **Spearhead a new, consolidated U.S.-Afghanistan Bilateral Tax, Trade, and Investment Agreement by 2019.**
 - AACC will help lead the way forward.



Thank you.