

**SUMMARY OF ROUND TABLE CONSULTATIONS
WITH THE PRIVATE SECTOR
(BUSINESS AND CIVIL SOCIETY)**

Summary Report prepared for the Enabling Environment Conference

**I. CONSULTATIONS HELD WITH
DOMESTIC SMALL AND
MEDIUM ENTERPRISES
ACROSS AFGHANISTAN**

In support of the Enabling Environment Conference, the **Afghanistan Investment Support Agency (AISA)** organised a series of roundtable consultations with domestic small and medium enterprises (SMEs). Three meetings took place this year in Kabul (14 and 27 February and a larger meeting on 28 March). The remaining round table consultations took place outside Kabul: in Jalalabad (18 April), in Herat (22 April), and in Mazar-i-Sharif (26 April). More than 90 SMEs were consulted across the four cities.

This report illustrates the outcomes of the round table consultations, which were designed to consult the private business sector with regard to the issues it faces, as well as to elicit recommendations and proposed actions to enable private initiative in Afghanistan.

Analysis of the Issues

At the consultations with the domestic SMEs (carpet, marble, dried-fruit and nuts, construction and service delivery, transportation and manufacturing sectors), the following impediments were identified across the four cities:

- ♦ **Access to land.** In Jalalabad, Mazar-e-Sharif and Kabul, access to land was underlined as a priority for the development of the private sector in Afghanistan. Processing and storing locally made goods require factories, equipment and warehouses; in the absence of land, such facilities cannot be created. As a result, most factories are currently located either in close proximity to, or within, residential areas. The current practice of selling land through auctions does not allow the domestic SMEs to access much needed land, as they are not able to compete with bigger players.

“Experience illustrates that often land is sold to individuals, theoretically, for business purposes. However, in reality after the procurement of land it is rented out to foreigners/expatriates in order to make money.”

- ◆ **Access to finance.** Access to finance is viewed as equally important. Due to high interest rates and loans being short-term (one year), it is not viable for domestic SMEs to borrow from the private and/or state-owned banks. In addition to high interest rates, the burdensome administrative procedures (e.g. obtaining necessary papers to process the loan) entail going through different ministries and municipal administration and also requires paying government officials in order to get the paper work done. Domestic SMEs describe themselves as in desperate need of credit.

“Government should differentiate between the producers and those who access finance just to import those goods which can be produced locally from outside. Specifically, the government should protect the local producers by at least reducing the interest rates from 12% on the loans.”

- ◆ **Lack of access to advanced technologies: machinery/equipment and knowledge.** In the absence of land, and therefore properly equipped factories, production and processing is done using outdated manual techniques. This negatively affects the quality of the products. As a consequence, locally processed and packed dried fruit and nuts do not meet international quality standards and the expansion of exports is limited.

Across the four cities, participants flagged the need for capacity development of domestic SMEs. At present, state institutions do not provide the much needed technical training courses on the utilisation of modern machinery or on business skills (management, accounting, etc).

- ◆ **High taxes and nuisance taxation.** The current taxation system was described as ‘unclear’ and ‘unorganised’ and little is done by the relevant government authorities to improve the situation. It was indicated that it is close to impossible to obtain the copy of the Laws on taxation from the Ministry of Finance, which are important to have before dealing with the government officials at the Customs Control and other tax collection points.

The current taxation system does not protect nascent industries against imported finished products. Not only do domestic industries pay an 8 percent tax on production, they must pay a tax of 25 percent on net income at the end of each fiscal year.

Inconsistent export duties were identified as a key impediment to the development of the local industries. In the past, the export tax was at 2 percent of the total product value. Currently, 16 percent of the value of the export is collected by Customs as a ‘voluntary’ contribution for the Afghanistan Red Crescent.

- ◆ **Absence of transit policies.** At present, Afghan trucks are not allowed to cross the border into neighbouring countries due to security, in particular to counter illicit drug trafficking. Goods which are exported out of the country are not allowed to be sealed in containers; as a result, the goods are damaged by the time they reach the consumer. For example, in the case of dried fruit and nuts exporters, during the course of transit of their products through Pakistani territory to India via road, the traders have to load and unload their products five times from Kabul to India.

Transferring goods using air services usually takes three months, mainly the time required to prepare the necessary documents. Furthermore, high fees are charged to use ‘Ariana’ air-shipment services. In addition, in the absence of an agreement between Ariana and foreign airlines, shipment via air is not possible beyond Ariana destinations. As a result, in order to avoid time consuming and costly procedures, the companies prefer to use the Pakistan land route to access world markets.

- ◆ **Pervasive Corruption.** Administrative corruption was identified across the four cities as one of the major impediments to the development of the SMEs in Afghanistan. They encounter this problem whenever dealing with the government officials to complete administrative work.

In order to complete necessary loan documents, in some cases enterprises have to pay bribes to bank officials as well as to the Kabul municipality, to ensure that the required loan documentation is issued as collateral for the loan.

According to domestic SMEs, the manipulation of administrative procedures provides many opportunities for corruption. For instance, there are many checkpoints on the roads, the reason for which (for all appearances) is illegal revenue collection.

- ◆ **Absence of government policies protecting domestic private sector.** Across the four cities, the need to introduce government policies protecting the domestic private sector against imported finished goods was emphasised, notably by the marble and carpet sectors.
- ◆ **Absence of quality standards.** Across the cities, domestic SMEs emphasised the importance of quality standard procedures which are at present absent in Afghanistan. For instance, in the absence of official quality standards certification by the Government, Afghan dried fruit and nuts traders sell their products at a lower price to wholesalers, who obtain the certificate/licenses from India’s Ministry of Health.

- ◆ **Inconsistency in implementation of the laws.** SMEs experience differences in the application of registration and licensing procedures between provinces and Kabul. As was highlighted by one of the participants: *“We have one government but 20 ways of implementing the one Law.”*

Although there is an established registration procedure handled through the AISA regional office, the licence obtained is often not valid in the neighbouring provinces. As a result, companies and organisations are requested to register with the provincial and district authorities where they actually set up businesses.

- ◆ **Burdensome administrative procedures.** Even though AISA issues licenses to the private sector within a short time, it takes almost three to four months to get sector-specific clearance required for operation from the relevant ministries. It was indicated at the round table consultations in Kabul and in Jalalabad that giving bribes cuts the time it takes to issue a licence to a minimum. Export procedures are also time consuming.

“It takes from 12 to 15 days to prepare the necessary documents and get necessary signatures from the government authorities in order to export stone. Who amongst the foreign buyers and traders are ready to wait for so long?”

- ◆ **Lack of security for the private sector to operate.** Across the four cities, security was highlighted as one of the major impediments to development of the domestic private sector, as well as to attracting much needed foreign investment.

“We are not talking about overall security but security of private businesses. Sometimes we have to pay informal taxes to local commanders and our work is under threat by criminal gangs. Thereby, security of domestic as well as international traders should be ensured.”

- ◆ **Infrastructure.** Consistent access to power and high cost of power were highlighted as problems in Mazar-e-Sharif, Jalalabad and Kabul. In the absence of power, generators are used, for which fuel is costly. In the existing industrial park in Herat, where 60 factories operate, the high cost of power, as well as the absence of water and waste management systems, were flagged as areas for immediate improvement in the industrial park.
- ◆ **Absence of insurance services.** Domestic SMEs across the four cities emphasised the importance of having insurance services in Afghanistan, to cover production facilities, vehicles and staff.

Recommendations

1. **Provide the domestic private sector with access to land:** (a) construct more industrial parks; (b) eliminate the current practice of selling land through auctions; and (c) provide long-term loans for land.
2. **Provide access to power (energy):** (a) introduce subsidies; (b) develop local potential for producing power; and (c) privatise the power sector.
3. **Provide access to finance:** (a) reduce the high interest rates on loans (12 percent), at least by the state-owned banks; (b) establish an ‘industrial development bank’ which would provide low interest loans to private sector; and (c) encourage use of AISA certificate/licence as guarantee of the existence and operation of the business.
4. **Eradicate corruption:** (a) increase wages of government officials; and (b) introduce strong penalties for those who are involved in corruption.
5. **Simplify sector-specific licensing procedures:** establish a committee which would include representatives of all line ministries relevant to the private sector, which would be responsible for sector registration of all private sector companies and for issuing licences, ideally within AISA.
6. **Protect domestic infant industries:** (a) increase tariffs on, or ban, the import of goods that compete directly with locally made products; (b) provide subsidies for domestic production by introducing five year tax holidays to infant industries; and (c) remove duties on the import of raw materials.
7. **Introduce transit policies:** (a) explore the use of traditional import and export routes (e.g. importing from China through Badakhshan province rather than through Karachi); and (b) establish a government institution responsible for sealing containers and vehicles, whose certification would be recognised not only within Afghanistan but also in neighbouring countries.
8. **Improve security for the private sector:** (a) permit domestic private investors / businesses to possess fire arms for self defence; and (b) encourage greater international emphasis on improving the capability of the Afghan National Army and, more importantly, the Afghan National Police.
9. **Simplify the income tax, customs and banking laws and their implementation.**

II. CONSULTATION HELD WITH INDIGENOUS CIVIL SOCIETY ORGANISATIONS

In support of Enabling Environment Conference, the Foundation for Culture and Civil Society (FCCS) in collaboration with Afghan Civil Society Forum organised a round table consultation with indigenous civil society organisations on the 4th April 2007 in Kabul. This section outlines the issues discussed.

Analysis of the Issues

- ◆ **Absence of consultation mechanism prior to approval of the Non-Governmental Organisations and Social Organisations Laws.** The notion of “social organisation” (SO) and NGO is a relatively new phenomenon in Afghanistan. The first indigenous SOs were established in 1989. However, there was a lack of consultation with indigenous SOs and NGOs prior to sending the relevant Laws to the Wolesi Jirga for hearing and approval. The Law on Social Organisations was enacted in 2003 and the NGO Law in 2005).

The current SO Law is considered to be not applicable in the present context of Afghanistan. In post-conflict setting where funding comes primarily from international sources, in accordance with the current law, SOs are not allowed to seek and raise funds from foreign sources. The lawmakers are considered to have insufficient knowledge about the mission and purpose of the existing NGOs and SOs and about the challenges they encounter whilst dealing with the government officials. However, despite the existing gaps in the Laws, the main problem lies in their implementation.

- ◆ **Lack or complete absence of coordination between international and indigenous NGOs and SOs.** There are too many umbrella organisations established in Afghanistan and almost all of them are externally led. The international community has not contributed significantly towards empowerment of indigenous SOs and NGOs.

“In the absence of a clear coordination mechanism in the provinces we have areas where 5 or 6 international and indigenous NGOs and SOs operate with similar programme profile. In the neighbouring province the need is much greater but none is operating there.”

- ◆ **Absence of dialogue between the donors and the recipients.** At present, the development process in Afghanistan is donor driven. Donors fail to listen to the indigenous grass root organisations when developing their projects/programmes, and pursue their own priorities and agenda.

“In one of the villages people were saying that their primary need was construction of an irrigation channel, so they would be able to have sufficient water for their crops. However, the international NGO came and constructed a school. The villagers were saying that there was no need for school at present as for years they were sending their children to the nearby village to school.”

- ◆ **Mis-perception of indigenous SOs and NGOs by ordinary people and government officials.**

Government officials believe that NGOs are for-profit organisations, established to pursue a certain agenda. This negatively reflects on the reputation and image of SOs and NGOs in the country.

“Government thinks that the NGOs and SOs are undertaking construction projects in order to fill their pockets. Government does not understand the difference in the construction approach of the NGOs. In our understanding construction is not only hardware that NGOs provide, which private construction companies do not, but also work carried out with the communities, as well as establishing maintenance systems. Government should understand that the approach of the NGOs is suitable and focused for construction of community level development.”

- ◆ **Taxation of the infrastructure activities undertaken by indigenous and international NGOs/SOs.** It is not clear in the new proposed amendments to the law whether tax is to be levied on the import of the construction materials or on the value of the infrastructure projects.

- ◆ **Burdensome registration and reporting requirements.** The government is not clear about the information to complete a registration application. There are successive new requests for documents. The registration timeframe varies: some organisations can register and obtain a licence within five to six days (if \$300 is paid) and for some it is an 11 month procedure. However, according to the law governing NGOs, the application should be processed within six months.

“There are a lot of requirements which are not stipulated in the law. When you try to explain the registration procedures in accordance with the law, the government officials are getting upset and further complicate the registration process.”

“There is no clear information provided by the government at the outset regarding what information is required to complete application. The current reality is that when you complete one document and submit it, the next day there will be another document, and another one the next day. The government should provide us with complete

information regarding what is required to complete the application once, at the initial stage.”

Multiple reporting requirements on the status of an NGOs’ activities are time consuming.

“Almost all government ministries including provincial governments require submission of a report. Even the Ministry of Interior and Intelligence is asking for one in which the detailed information about staff, salary of the staff and the budget of organisation is provided.”

- ◆ **Lack of access to funding for indigenous SOs.** According to the law governing SOs, they are not allowed to mobilise funds from international sources. This article hinders development of indigenous SOs, in particular given the fact that most funds required for operation of the indigenous organisations come from international sources.
- ◆ **Lack of clear understanding by the government of the roles and responsibilities of SOs and NGOs.** There is a lack of understanding not only within government, but also within indigenous SOs/NGOs of their roles and responsibilities.

“Government should understand that indigenous SOs and NGOs can be a great asset for Government during implementation of a broad spectrum of development projects, in particular in areas where Government’s presence is limited.”

- ◆ **Lack of coordination within relevant line ministries.** Registration and licensing at the national level do not guarantee that there will be no problems at the provincial level.

“Although each operating NGO is registered with relevant line ministries at the national level, the lack of coordination between national and provincial offices creates problems for the operations of both SOs and NGOs. For example, in order to initiate an agriculture project, we had to go through the provincial Department of Agriculture, which requested us to give them money in addition to allocating one of their officers to work with us in the project”

- ◆ **Lack of support from the government.** There is a lack of support for the indigenous SOs/NGOs from the Government. Government officials perceive SOs/NGOs as their “opponents;” current relations between the two have been characterised as uncooperative and at times hostile.

“It is close to impossible to get support from the government, even when it comes to sharing the necessary documentation related to our organisations. For instance, if you go to the

Ministry of Justice, it takes ages to buy copies of the law governing NGOs and SOs.”

- ◆ **Strong State control of NGO and SO activities.** The Government gets involved even in the development of an organisation’s statutes. When the statutes are submitted as required under the law, they are revised by government officials.

“The government officials make you submit items which are not relevant to our organisation’s statutes. For instance, property owned, number of employees and their salaries and wages – even the number of chairs and desks in our office premises.”

“Government officials think that if they issue licences to indigenous NGOs and SOs they have some sort of authority over us. Yet, it is almost impossible to get government officials to come to the conferences and meetings organised by the local SOs and NGOs. One official even indicated that it would be below him to visit any local NGOs or SOs premises and if the latter wants to have him at the meeting they should hold it at the mosque.”

Recommendations

1. Push the government to consider amendments to the respective laws proposed by indigenous SOs and NGOs. The ten amendments to the law governing SOs have been proposed for the hearing in the National Assembly. ACBAR has proposed amendments to the NGOs Law.
2. Consult with SOs and NGOs prior to the enactment of laws. Ensure consultation with indigenous SOs and NGOs prior to passage of the SO/NGOs Laws.
3. Introduce uniform registration procedures both for NGOs and SOs.
4. Establish a mechanism that will ensure the proper implementation of the laws.
5. Establish a uniform reporting mechanism with a focal point ideally in the Ministry of Economy. Establish a focal point through which the line ministries will access the indigenous and international NGOs for necessary information instead of directly (ideally Ministry of Economy).
6. Raise the awareness of government officials about the SO and NGO laws.
7. Provide/ensure security in the programme areas and the safety of SO/NGO personnel.

III. CONSULTATION HELD WITH INTERNATIONAL NGOS

In support of Enabling Environment Conference, the Aga Khan Foundation, Afghanistan in collaboration with the Agency Coordinating Body for Afghan Relief (ACBAR) organised a roundtable consultation with international non-governmental organisations (NGOs) on the 5th of May 2007 in Kabul. This section outlines the issues discussed.

Analysis of the Issues

- ◆ **Security.** Security of international NGOs was identified as a major constraint for the full operation of international NGOs. Owing to the unstable security situation, most international NGOs are not active in the eastern and southern provinces of Afghanistan.
 - ◆ **Donors focus on conflict areas i.e. East and South.** At present, the interest of the donors has shifted to the south and east where the PRTs are located. It is becoming difficult to find resources for the projects in north and west Afghanistan.
 - ◆ **Resource-scarce environment.** Currently, international NGOs are mainly concerned about their own existence; in the changing funding environment, they are pushed to write proposals for tenders and to act as sub-contractors for the Government or other funding bodies.
- “Donors’ perspectives are short-sighted and their focus unbalanced: i.e. on the private sector ignoring those basic needs of the rural population that are still not satisfied.”*
- ◆ **Lack of coordination within international NGO community/absence of a single body to co-ordinate coherent and consistent policy and advocacy.** There is a lack of consistency within international NGOs, which complicates relationships with government officials. Most of the NGOs are operating on their own.
 - ◆ **Government’s negative perception of international NGOs** erodes the trust between communities and NGOs.

‘Public statements saying that international NGOs misuse most of the development money erode the trust between communities and NGOs.’

- ◆ **Lack of qualified local personnel.** NGOs allocate resources for the development of local capacity, only to lose them, once trained, to other projects.
- ◆ **Widespread corruption.** Corruption is widespread and obvious at the provincial level.

- ◆ **Shrinking space for innovation and pilot projects.** Donor-driven development leaves little space for innovation and initiation of pilot projects.

- ◆ **Burdensome reporting procedures.** While international NGOs do not face major problems related to registration, some reporting requirements are considered irrelevant as well as burdensome.

“In Herat, the provincial department of the ministry demands numerous reports from international and national NGOs, even though a letter was obtained by ACBAR from the Ministry of Economy in Kabul and distributed to NGOs operating in Herat, in which it is indicated that no reports would be required from the NGOs operating in Herat, since the necessary information is submitted to the Ministry of Economy in Kabul by the organisations’ headquarters. However, despite this the ministry department at provincial level does not follow these instructions.”

- ◆ **Inconsistent implementation of the laws.** The Procurement Law is vague and not relevant to the Afghan context (a post-conflict situation where capacity constraints are considerable).
- ◆ **Inconsistency in disbursement of funds for government financed projects.** NGOs are facing difficulties when it comes to the implementation of government funded projects. In some cases, it takes almost a year for funds to get disbursed. (Funds are channelled by the donors to the ministries.)
- ◆ **Inconsistent and opaque legal framework.** Inconsistency in laws, and at times contradictions between the laws and the guidelines to implement them, are due to the fact that external technical assistance to draft laws is not coordinated.
- ◆ **Absence of a mechanism for dissemination of information.** The current mechanism for channelling information is inadequate (e.g. information on state advertised tenders).

Recommendations

1. Implement consistent and transparent laws governing operations of indigenous and international SOs/NGOs.
2. Establish a focal point for reporting, ideally, the NGO Department of the Ministry of Economy
3. Develop clear information on roles and responsibilities of private initiatives and government.
4. Establish a policy and advocacy body for international NGOs.

IV. CONSULTATION HELD WITH THE AFGHAN DIASPORA IN CANADA

In support of Enabling Environment Conference, the Aga Khan Foundation Canada and the Afghan Embassy in Canada organised a roundtable consultation with representatives of the Afghan Diaspora on the 29th of March 2007 in Toronto, Canada. This section outlines the issues discussed.

Analysis of the Issues

The diaspora is optimistic about opportunities to contribute and has a strong desire and to do so. However, there is an acknowledgement that the Afghan diaspora needs to be considerably more engaged, and that many factors continue to deter the diaspora from engaging in greater numbers.

Key messages that emerged can be divided into (i) those that affect all prospective investors in Afghanistan, and; (ii) those issues found to be more specific to the experience of the Afghan diaspora.

Issues and challenges common to all prospective investors

- ◆ **A sense of uncertainty about the future stability of the country.** The continued support of the international community sends a critical message of confidence to all prospective investors and is vitally important to maintaining a sense of optimism for future development.
- ◆ **Security of investments.** Many participants cited challenges relating to the legal, regulatory and administrative framework for trade, investment and licensing of businesses as an ongoing impediment. The issue of land titles and property rights is especially important for returning Afghans.
- ◆ **Ongoing impediments to business and economic development** posed by the lack of economic infrastructure in the country, particularly the lack of access to reliable electrical power.
- ◆ **The shortage of human resources available in the country** is not only a constraint to business operations, but is viewed as also making Afghan enterprises less competitive due to the high cost of skilled labour, relative to HR costs in the region.
- ◆ **Lack of access to finance, insurance and other financial services** was noted as a major constraint to the establishment and expansion of diaspora investments in the country.

Issues raised specific to the Afghan diaspora

- ◆ While there are tremendous opportunities for a wide range of diaspora involvement, **there is a perception that the overall success of their individual contribution is heavily reliant on the existence of strong relationships and connections within Afghanistan.** Members of the diaspora who have maintained strong ties to Afghanistan are perceived to have a clear advantage to those with few existing connections.
- ◆ **There is a reluctance to leave their newly established lives in Canada,** i.e. unwilling or unable to divest from home, profession, mortgages.
- ◆ **There is a concern that the Diaspora's return would take opportunities away** from those who have remained in Afghanistan throughout the years of conflict.
- ◆ **Many returning Afghans have found the process of re-assimilation into their home country extremely challenging.** Members of the diaspora who have enjoyed success in western countries often face complex and difficult issues upon returning to Afghanistan.
- ◆ **The diaspora feels a strong moral commitment to make a contribution,** but many lack the means or resources to navigate the complexities of investing in their country to do so individually.

Recommendations

Recommendations offered echo findings that emerged in the background papers and case studies, such as (i) increasing access to financial services, (ii) clarifying the legal and regulatory systems governing business activity, (iii) and encouraging investment in infrastructure and social services needed to underpin economic development and make Afghan businesses competitive. In addition, the following recommendations were made:

1. Establish business-council networks for information sharing, and encourage and support efforts of individual investors.
2. Create a safety net of subsidised insurance for prospective investors.
3. Develop local suppliers to ensure access and technology transfer continues beyond current international donor involvement.

4. The human resource needs should be met by investing in a wide range of professional and adult education whilst simultaneously supporting the rebuilding of Afghanistan's education system.

Participants stressed the importance of providing opportunities for young diaspora members, newly graduated from Canadian institutions, to return for short and long-term placements within and outside of government institutions. The importance of providing scholarships to promising Afghan youth for academic and professional training outside of Afghanistan was also strongly emphasised.

V. CONSULTATION HELD WITH THE AFGHAN DIASPORA IN GERMANY

In support of Enabling Environment Conference, the AKDN and the Afghan Embassy in Germany organised a roundtable consultation with representatives of the Afghan Diaspora on the 14th of May 2007 in Hamburg, Germany. This section outlines the issues discussed.

Analysis of the Issues

A range of issues were raised, many of which confirm messages from other consultative meetings, research and interviews.

- ◆ **Security** is an overarching concern for the German Afghan Diaspora; fear for life and property dissuades members of the diaspora from investing.
- ◆ There is a general sense that the Government has **not been very supportive of investors**: (i) unpredictability and inconsistency of messages across various ministries, particularly with regard to the payment of taxes and customs duties, (ii) widespread corruption, and (iii) extremely cumbersome bureaucracy, including with regard to recovering pre-war assets.

It took one of the participants over a year of intense work with the government machinery up to the deputy minister-level to get the paper work done to be able to reclaim his pre-war property. Bribes were asked for throughout the process.

The Government and Siemens agreed on Siemens' importing and selling 100,000 bulbs on a non-profit basis. However, when the cargo arrived, the customs authorities insisted on assessing full duties.

One businessman is producing small windcraft and solar energy installations on a non-profit basis in a village in Wardak. For production, he needs to import solar panels. Customs has argued that he

was not able to prove that he would not resell the panels on the Kabul market and have therefore demanded 12% customs, rather than 3% customs duty on the import of inputs for production.

- ◆ The **cost of production in Afghanistan** remains high in comparison to neighbouring countries. The main factors here include: (i) lack of access to cheap, reliable energy and (ii) high labour costs, particularly in comparison to Pakistan.

With the end of the conflict five years ago, many Afghan carpet weavers relocated back from Peshawar into Afghanistan. However, there is no carpet washing facility in Afghanistan and installing one would involve a major investment. This is not possible because of lack of access to land, water and electricity needed (as well as security for employees). In addition, high labour costs in Afghanistan further damages the competitiveness of the sector. Most carpet weaving businesses have left Afghanistan again and have relocated to, as during the war years, Peshawar.

- ◆ Markets in Afghanistan are often **dominated by few powerful individuals**. It is therefore difficult for small and medium sized businesses to enter the market, particularly as there are limited sources of capital for small investors relative to larger and more 'influential' investors.
- ◆ The rules and regulations of international **transport** create serious problems for the transportation businesses and substantially increase costs of exporting or importing over land.

A transportation company pointed out that the lack of good roads was only a secondary problem for cross border transit: goods transported over land to Afghanistan have to be on and off-loaded several times at borders.

- ◆ The **lack of standards, quality controls** and the related capacity within government was a cross-cutting theme.

Entrepreneurs involved in the solar energy equipment business have the necessary technical know-how to advise customers. However, within the Department for Renewable Energy of the Ministry of Energy, there is no expertise with this technology (for quality control purposes and to conduct basic analyses) even though the technology is being deployed through the NSP. As a result, some unscrupulous suppliers are engaging in illegal activity.

- ◆ **Lack of qualified government personnel** across the board was brought up several times as a major impediment.

- ◆ **Technical training:** there is a complete absence of appropriate training institutions with regard to new technologies (such as renewable energy). It is very difficult for private sector to counterbalance this gap, as people trained internally, at the cost of the business, leave shortly after completing their training. There is a dearth of managers; Afghan businesspeople have even resorted to employing Pakistani managers because they cannot find qualified Afghans.
- ◆ There is **too much emphasis put on the development of Kabul and other large centres**, which cannot cope with the enormous pressures linked to their rapid growth. The results are slums, increasing levels of crime, inhumane living conditions for many people, particularly children. More emphasis should be put on supporting decentralised development that enables people to make a living in small towns and villages as well.
- ◆ **Lack of institutionalised links between the diaspora and Afghan businesses and civil society.** Generally, it was obvious that there is a great interest not only to invest and conduct business in Afghanistan, but also to help on a non-profit, philanthropic basis. However, Afghans in Germany do not know how to offer their help. There is a need for a better coordination and institutionalisation on both sides, as well as some proactive support from the side of government to unleash the huge potential that exists.

Hamburg is the biggest carpet trading centre in the world with over 400 carpet traders based in Hamburg, 40 percent of whom are Afghans. Yet, the Hamburg based Afghan carpet trading industry has so far not benefited the Afghan based carpet weaving industry. They would be keen to help but do not have a reliable counterpart with whom to link up in Afghanistan. This role could be played by a chamber of carpet weavers and traders

Recommendations

1. Establish a scientific body/standards control regulator within the Ministry of Energy.
2. Provide for more technical training and capacity building, particularly for Ministry staff.
3. Ensure greater consistency between licensing, registration, agreement and customs procedures and their implementation.
4. Take the focus away from Kabul and to diversify development and investment in provincial centres.
5. Ensure that there are sources of capital for small investors.
6. Promote conditions for production, not just trade.
7. Establish an issues or problem resolution mechanism for small businesses.
8. Improve competitiveness through for example export incentives (as provided for in Pakistan); and bringing down the cost of energy and security.
9. Facilitate non-profit activities, rather than subjecting them to additional taxation.
10. Improve the security situation.
11. Create a reliable point of contact within government for interested investors, and for the diaspora willing to contribute to Afghanistan's development through donations or expertise. AISA's mandate is too limited to meet the needs of investors.