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THE INDUSTRIAL DEVELOPMENT PROGRAMME IN AFGHANISTAN ✓

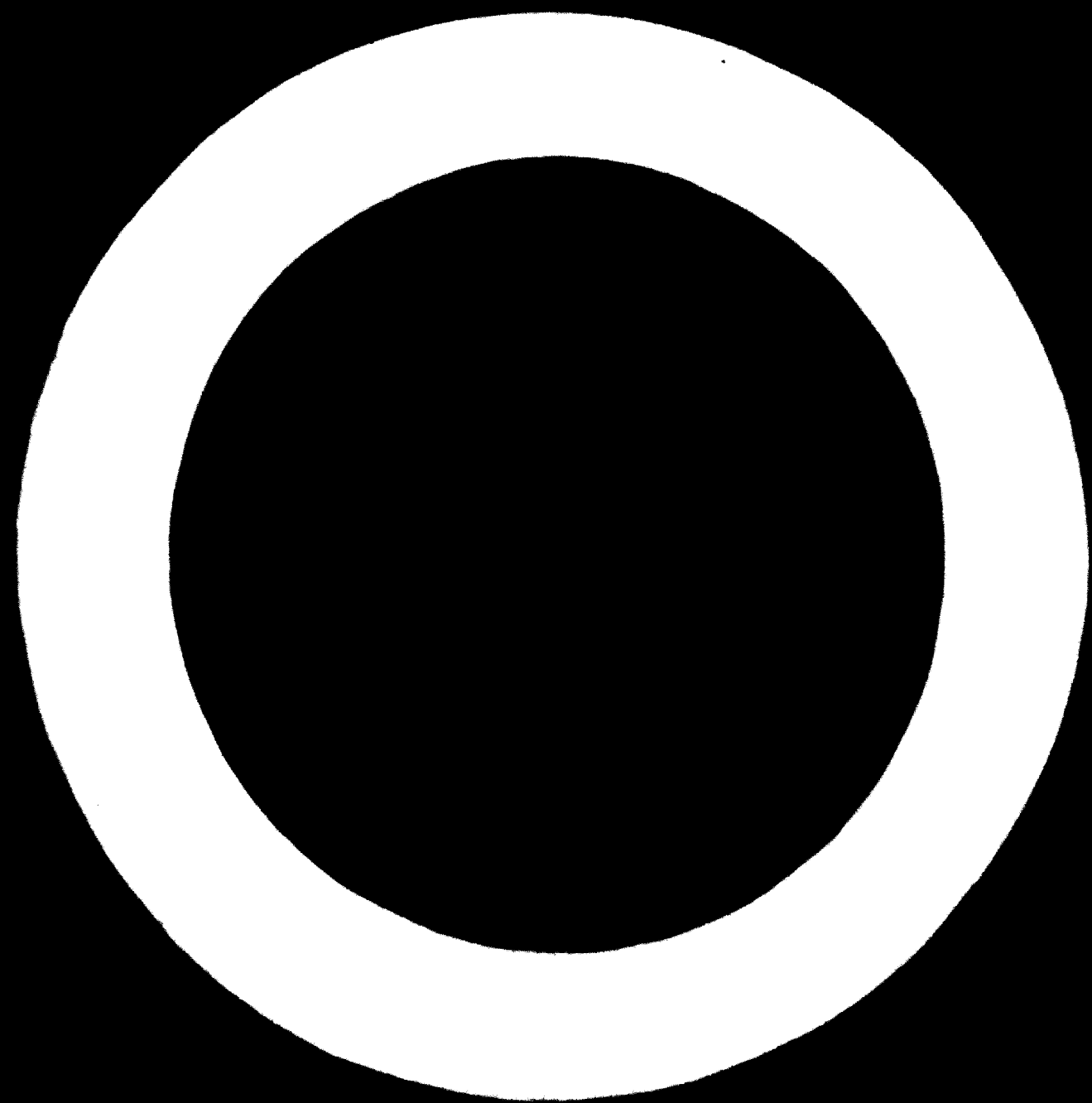
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INDUSTRIAL DEVELOPMENT PROGRAMME IN AFGHANISTAN

An Industrial Development Programme, particularly a private one, is still a very new thing in Afghanistan. The Foreign and Domestic Private Investment Law only came into force on February 22, 1967, a mere three and one-half years ago. Nevertheless, in this short time, the Programme has been surprisingly successful - particularly considering the conditions then prevailing in Afghanistan.

In a little over three years, some 210 project applications have been filed under this Investment Law. Of these, 128 have been already approved and 50 are now actually in operation, while many others are under construction. The fact remains, however, that development in terms of projects and factories is running far ahead of development in terms of supporting institutions. For example, all the above activity has had to take place almost without recourse to credit, either short or long term. This lack of credit facilities is our greatest single problem, and represents the biggest visible threat to the present, highly gratifying, rate of investment.

The few local banks are not equipped for, nor are they particularly interested in, industrial finance. Consequently, the key to the problem has always been visualized as the creation of the "Industrial Development Bank of Afghanistan". This institution, patterned after the highly successful Pakistan Industrial Credit and Investment Corporation (PICIC) and the Mining and Industrial Development Bank of Iran (MIDBI), is to provide long term industrial credits and to function as a "guide" to introduce private banks to the practice of short term industrial credit. Unfortunately, the legislation to enable this has been before Parliament for over two years awaiting final approval. It is hoped, that before the next session of Parliament is closed, this legislation will be passed. In the meantime, however, credit is for all practical purposes not available for industrial enterprises.

The principal effect of this has been a slower rate of implementation of approved projects since implementation must await the cash liquidity of the individual investor. A further defect is the natural tendency of operating factories to conserve cash by reducing inventories (particularly raw material inventories) to a point below the safety limit,

especially for a country like Afghanistan where importation is a long process, due to distance.

A possible "benefit" of the lack of long term credit has been the reduction of initial factory size from what undoubtedly would have been proposed, had such credit been available. Of the 128 factories approved, the average total financial requirements are only approximately \$250,000 per factory. In a country where management techniques are only just beginning to be understood, this is not necessarily detrimental. Nevertheless, it can hardly be denied that a fundamental support of industrial development - credit - is almost totally lacking, in any satisfactory form, and that the Industrial Development Programme is suffering as a result.

In regard to research institutes and information centres, Afghanistan is just now taking the first steps in establishing the Investment Advisory Centre to begin to fulfill these functions. The Centre can hardly yet be considered a functioning institution, and what research and information work is done is handled on an ad hoc basis by foreign advisors associated with the Investment Programme. Nevertheless, it is hoped that by next Spring, the Centre will be staffed and operating.

Similarly, there are as yet no industrial associations, nor a Chamber of Industry. A start has been made, however, by reserving for industrial concerns one-third of the voting membership of the Chamber of Commerce and plans are under study to convert it to a Chamber for Commerce and Industry.

In regard to standardization, the Afghan Standards Bureau has recently come into being, but it is still so new that its practical effect is yet to be felt. It is still heavily dependent on foreign technical advice. It is hoped however, that the Standards Bureau will be able to begin to make a useful contribution in the next fruit export season.

With such marginal support, it may be wondered how Afghanistan has been able to generate the very considerable investment programme which exists, which expands daily and which shows no signs of slackening. The answer lies mainly in the fact that industrial growth and investment are much more functions of environment than they are functions of specific kinds of technical support. If we presume that investment funds (both foreign and domestic) are more or less always available (even when

they are invisible), then it follows that putting them to work productively is principally a question of motivating the owners of such funds .. in other words, the creation and maintenance of a suitable investment environment. The one thing Afghanistan has been able to achieve is precisely that: a psychological climate in which people are ready and, in fact anxious to invest their savings in productive enterprises. Quite possibly Afghanistan offers the classic proof of the overwhelming importance of environment alone; certainly, we have no technical support that amounts to anything (as can be seen above). Yet, we have industrial investment, by Afghan standards in very large quantities (the total value of approved projects is more than \$43,000,000. while the factories already operating are estimated to even now represent a cash outlay of over \$5,000,000 and new factories can be seen under construction on every side).

The creation and maintenance of this highly productive environment is due to the one real industrial development institution Afghanistan has, the Investment Committee of Afghanistan, together with its Secretariat. This committee and its secretariat have in the past three years, evolved into something which is perhaps rather unique in development situations: a "one-stop development service" into whose hands have been gathered almost all the essential powers necessary to help and encourage investors. We feel, therefore, that it might be of interest to consider its nature and operation.

The Investment Committee was set up by the Foreign and Domestic Private Investment Law of 1st Hoot 1345 (February 22, 1967), and consists of the following five Ministers: Minister of Commerce (Chairman), Minister of Planning, Minister of Finance, Minister of Mines and Industries and the Minister of Agriculture.

Under the law, the Committee has the primary duty of considering and approving investments under the provisions of the Law (Articles I and XXII). It decides by simple majority vote and can delegate its powers (Article XX). By virtue of its right to issue "regulations and necessary administrative procedures" (Article XX) in order to fulfill the objectives of the Law, it was given full power to deal with investment projects after their implementation as well.

In accordance with their authority to delegate their powers, a Secretary was appointed in the Spring of 1967 with full administrative authority under the committee. A very important development was that

the Secretaryship was devolved upon an already functioning officer (and office) of the Ministry of Commerce.

Thus, the Secretary of the Investment Committee is also the Director-General of Internal Trade of the Ministry of Commerce, by virtue of which he was already empowered to control trade licensing and to act as 'Registrar of Companies' in Afghanistan. In addition, his powers were rounded out by special decrees, giving him the power to issue Customs Clearance releases on his own authority as well as rights in regard to visa issuance. In this way, a "one-stop service" for the investor was created.

In effect, an investor with a project (except in a few cases) deals with only one office and one official for all phases of a project. The gain in time, efficiency and investor morale are immense. How the system works can be shown by the usual steps for a project, as given below:

1. Proposal and Application

A. Preliminary interview: An investment almost always begins with potential investor arriving at the Ministry of Commerce with an "idea". A brief interview is held with the Secretary of the Investment Committee who explains:

1. The investment law and its operation
2. Afghan company formation
3. Whether there are any similar proposals

and answers any questions raised by the investor. The investor is then normally directed to a foreign advisor for preparation of the proposal.

B. Preparation of Application: Normally this will now be handled through the Investment Advisory Centre and foreign advisors, and consists of the following:

1. Five-year analysis of Investment Costs (fixed and operating capital), operating costs, markets and selling prices, personnel requirements (foreign and Afghan), availability of technical know-how and training programmes, import requirements, type of company and its formation, sources and availability of adequate finances.
2. Preparation of a "recommendation" to the Investment Committee by the advisors.
3. Preparation of Application Form itself.
4. Preparation of explanatory letter in five copies signed by the investor.

All of the above is done for the investor at no charge.

2. Approval

- A. The approval process begins when the above-mentioned application, analysis, recommendation and letter are formally delivered to the Secretary of the Investment Committee and the Project officially given a number.

The the Secretary's Office translates the whole thing into Farsi (from the original English) and prepares a suggested draft approval.

When this is complete and from 4 to 12 finished projects are on hand, every project is explained in detail to the Minister of Commerce (Chairman of the Investment Committee) and he negotiates the date of a Committee Meeting with his four other colleagues.

- B. Investment Committee Meeting. At the next meeting, the projects are submitted one by one to the Committee of five Ministers (Commerce, Mines and Industries, Finance, Agriculture and Planning) by the Secretary of the Committee who explains each in detail.

The Secretary must be prepared to handle many and varied questions, to convince the Committee of the merits of each proposal, to avoid the Committee's tendency to impulsive modifications of long studied projects, and to try and get them to accept the wording of the Approval as drafted. In the end the Committee by a majority vote, approves or disapproves. If it approves, it sets the wording of the approval, generally with some modification to the draft.

3. Implementation

The steps toward implementation can be summarized as follows:

- i. Company formation
- ii. Issuance of license
- iii. Land and building
- iv. Machinery importation
- v. Certification
- vi. Raw material importation
- vii. Visas

Company formation: Since the Secretary of the Investment Committee is also Registrar of Companies of Afghanistan, the new approved company can be formed without excess trouble. The provisions of the Commercial Code for the recognized forms of legal

organization are too complex to be illustrated here. In general however, the process can be completed in a week or ten days.

Licensing: As an investment license is issued in the name of the new, approved company, the license must await the legal existence of such company. Once the company is formed, the Secretary instructs the Chamber of Commerce to issue the license itself. The license is of special importance under Afghan conditions, as it must be physically produced (and scrutinized) on all occasions when exercising any right under the investment law, with the exception of business with the Secretariat itself.

Land and Building: Particularly as concerns the land and its location, the Secretary's office must take an interest. Between the lack of documentation of land ownership and the new rules for industry of the Urban Planning Authority, great care must be exercised to avoid later paralyzing complications. With the recent creation of the Industrial Park, under the control of the Investment Committee (in operation, the Secretary's office) the problem has been eased enormously as suitable sites may now be simply assigned.

Machinery Importation: When machinery and equipment arrive in the Afghan Customs, the investor brings the following to the Secretariat:

- i. "Elm-wo-Khaber" (document issued at the frontier arresting legal entry)
- ii. Invoice certified in country of origin
- iii. Shipping documents

After examination of these documents, the Secretary signs an order for the customs to allow duty-free entry.

Certification: Before any duty-free raw material may be brought in, a factory must be inspected and receive a Certificate of Implementation stating that machinery has been installed and that it is in running order (and can therefore use the raw material). Certificates are prepared by the Secretary on the basis of percents (50%; 100%; etc.) of the capacity as described in the Application.

Raw Material Importation: When a factory receives a Certificate the Secretary will clear duty-free raw material through Customs. Basically, the procedure is the same as that described for equipment, except that a very close control is kept of volume

vis-a-vis the quantities listed in the Application. Certain "sensitive" items (e.g. rayon yarn) must be stored in approved warehouses and are issued on a ration system, month by month.

Visas: In regard to foreign investors or to Afghan investors utilizing foreign experts, a special Cabinet Decree has been obtained creating a special Investors' Visa. This multi-entry and exit, six-months visa (renewable) is granted on the instruction of the Secretary of the Investment Committee in accordance with the requirements listed in the investor's Application.

As can be seen, almost all matters of any importance to investors relating to the Government are dealt with through the Secretary's office. Quite obviously, such a system is a two-edged sword and could be used just as effectively to destroy the Programme as to promote it. Thus, the remarkable success so far enjoyed, which is largely attributable to the favourable environment, has resulted from the ability to keep the operation of this "one-stop" system as liberal in practice as it is in intent. That this should be the case is the decided policy of the Investment Committee and a particular preoccupation of its Chairman, the Minister of Commerce. Nevertheless, the burden of operating it in this manner falls almost entirely on the Secretary.

The Secretary is faced with an innumerable series of problems to solve and which must be solved rapidly enough so as not to delay the project, thus costing the investor extra money. He must do this in spite of a series of generally archaic and often inappropriate decrees and regulations set up years ago to regulate economic activity. Fortunately, in case of obvious necessity, the fact of having the support of the five Cabinet Ministers who make up the Committee is generally sufficient to obtain a change or an annulment of those old Decrees and Regulations which particularly impede progress. But, principally, the activity must be carried on through giving the existing legal framework its most liberal possibility, interpretation and devising techniques, to work within it, without hindering industrial development.

It is in this field, particularly, that the industrial advisors to the Investment Committee, Thomas H. Miner and Associates Inc., of Chicago (who operate under USAID contract), have made valuable contributions.

Their long experience in many countries gives them the possibility of suggesting workable solutions while their familiarity with industrial requirements enables them to suggest priorities of importance.

As a result, the system, as presently set up, can secure an approval for a projected factory within one month to six weeks; a company can be established in as short a time as seven days; customs releases for equipment and raw materials can be delivered within two to three days, and in urgent circumstances, within 24 hours. Inspections for Certification of Implementation are often conducted the same day as requested and, at the maximum, within three to four days of the request. This kind of service, together with the determination of all concerned to help the projects and the people involved and to go to great extremes to avoid hindering them, are the principal factors in maintaining and encouraging a favourable investment climate. Under these circumstances, the commitment to favourable environment does not remain at the level of "policy" as enunciated by Minister, but is applied practically to innumerable daily problems with which each project is faced.

It is through this means, and this means alone, that Afghanistan has been able to successfully generate what, for the size of its economy, is a very large and growing industrial development programme. It is through this means that this programme has continued to grow and expand, inspite of the crippling lack of credit, and with the other supporting technical institutions - either non-existent or in their infancy.

It is for this reason that we submit that a favourable environment, effectively applied, is the single key factor in promoting industrial development. Afghanistan's experience proves that with this environment such development can take place inspite of the lack of those other highly important supporting factors which are often held to be essential.





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