



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org



D02908



United Nations Industrial Development Organization

Distr.
LIMITED

ID/WG.61/BP.10
11 October 1970

ORIGINAL: ENGLISH

Seminar on the Organization and Administration of
Industrial Services (for Asia and the Middle East)

Tashkent, USSR, 12 - 26 October 1970

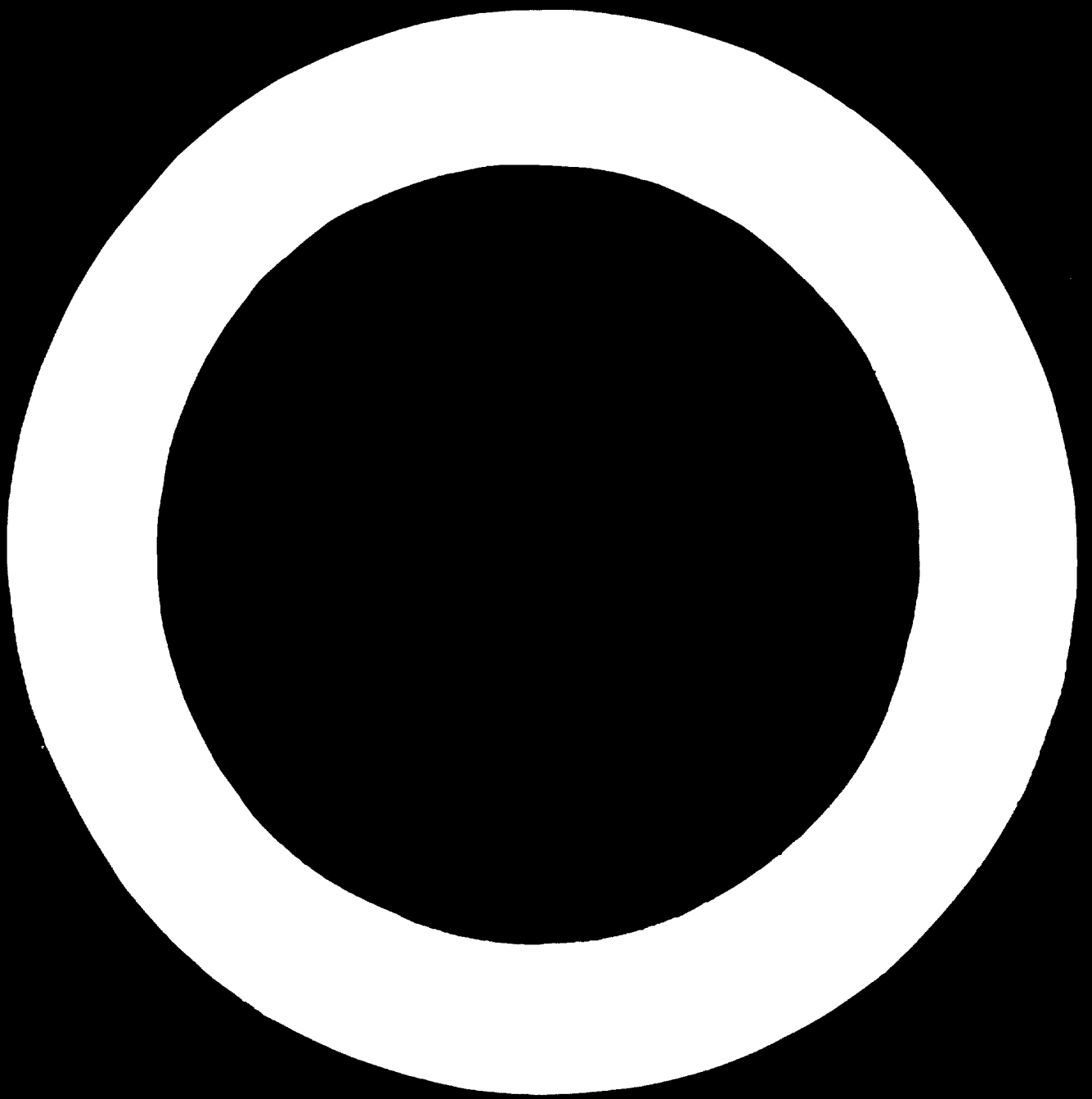
NATURE AND SCOPE OF AID ASSISTANCE TO
THE DEVELOPMENT OF AFGHANISTAN'S
PRIVATE INDUSTRIAL SECTOR ^{1/}

by

C.H. Zondag
United States AID
Afghanistan

^{1/} The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.



I. GENERAL BACKGROUND

AID assistance to the development of Afghanistan's private industrial sector presents an interesting case study of both what can be done and what pitfalls are to be avoided.

A modest "Private Enterprise Program" was started in 1964 in response to the Royal Government of Afghanistan's (RGA) concern about a growing lack of dynamism and problems in the public industrial sector which by that time controlled some thirty of the larger plants. A subsequent consideration was the need to create more industrial jobs for a growing number of educated unemployed after the RGA had decided to make a major effort in the area of University education.

Originally the programme was started as a private investment programme 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 (animal casings, sheepskins, cigarette manufacturing, corrugated boxes, spice and herb processing, carpet manufacturing, karkam processing and tourism).

Upon completion and RGA approval, each feasibility study was given a relatively wide promotion effort among potential U. S., European and Japanese private investors as well as lending institutions. By and large, this approach was unsuccessful. Thus, in 1966 the direction of the programme was changed radically toward the creation of a proper investment climate which would primarily attract indigenous investors rather than foreigners. In making this change it was assumed that if the domestic investor would successfully move ahead, the foreign investor was likely to take notice and follow. This assumption proved to be essentially correct as may be noted from the story which follows.

A very large part of the favourable results achieved so far is due to the positive support given to the programme by the highest levels of the RGA, as well as by individual private investors. In particular the first Chairman of the

Investment Committee, Mr. Noor Ali, was tireless in his efforts to promote the case of the private industrial sector as well as to eliminate obstacles to its development. Another substantial part of the results achieved is to be attributed to the selection of a management consulting firm from Chicago, which was able to field a small team of advisors. These three experts - an investment analyst, a financial management expert, and an industrial engineer - proved well qualified to help Afghanistan in getting started on the development of a small private industrial sector.

II. THE FOUR MAJOR STEPS IN PROGRAMME IMPLEMENTATION

The key to the success of the re-directed private investment programme, which started in 1966, was the promulgation of a Foreign and Domestic Private Investment Law early in 1967. The principal characteristic of this law was that 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., it established an Investment Committee composed of the five Ministers of Commerce, Finance, Planning, Agriculture and Mines and Industry. Approval of a proposal by this Committee now means personal endorsement by five Ministers, hence relatively ready endorsement of implementing actions by five Ministries. Also, this provided the new investor with a direct recourse to higher authority in case his efforts were met with opposition from the various key ministries with which he would have to deal at one time or another. In other words, in 1967, the approach was changed from the previous diffuse investor control, where almost every step the potential investor wanted to take had to be approved at the lower echelons of some Ministry, to direct investor support by the Ministers themselves.

The effect of this change 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 and roadblocks generated at the lower levels of the RCA, and competent advisors to help them in overcoming these difficulties. They began to file investment applications. Consequently, 128 investment applications had been approved as of October 4, 1970 out of a total of 210. About 50 per cent of these are export oriented and a total of 22 were filed by foreign investors, such as projects for a \$2 million pharmaceutical plant (Germany), for a large soap factory (Pakistan), and for a foam rubber plant (England). About 50 applications were either rejected or abandoned while others are still awaiting action by the Committee. This proved conclusively that given proper surroundings Afghan businessmen appear to be eminently responsive to those incentives which seem to operate so well in the Western world. Prior to 1967 there had been doubts about this.

Out of the above total number of investment applications, fifty investors have now established new industrial establishments such as rayon textile mills (15), raisin processing (9), animal casings, rose essence, wine making, chinchilla and mink fur production, thread production, metal furniture, tiles, pharmaceuticals and a number of service industries such as dry cleaning establishments. The total amount actually invested in these plants since 1967 comes to about \$5 million and they employ some 3,500 workers.

While the multiplier effect of this small effort is considerable, it is most remarkable that all this development took place in the absence of industrial credit facilities. Thus, the whole array of at least rudimentary private sector supporting facilities, which usually exists even in the developing countries, is almost totally lacking in Afghanistan. Even commercial credit provided by the few existing banking establishments is extremely scarce.

The most typical case was to provide the investors with adequate industrial building sites since land for industrial purposes, equipped with adequate water and power facilities, is extremely scarce in Kabul. To meet this problem, the

RGA made available about 800 acres for the establishment of an Industrial Park near Kabul, valued at about \$1 million. Subsequently the RGA made a request of the Asian Development Bank for a \$1.5 million loan to develop the Park. This is now receiving favourable consideration on the part of the Bank.

The third major step was to provide limited institutional support for the new investors. This was done through the establishment of a small Investment Advisory Centre in March 1969 which, as yet, is not very effective. Most of the domestic investors originated in the bazaar with a keen sense for markets but with little organization or managerial capability. Hence their need for this type of assistance which in time is expected to develop into a small industrial extension service.

The fourth step, namely the provision of adequate industrial financing to existing and potential investors, is still to be taken. Thus, another effort is now being made to establish an Industrial Development Bank with capital assistance from abroad, a project which so far has been delayed because of lack of action on the part of the Afghan Parliament to pass the proper legislation. However, since in the meantime, the Agricultural Bank was re-organized, some of the needs of the incipient agricultural processing industry can now be met by this Bank.

III. SUPPORTING ACTIVITIES

Apart from its involvement in the above programme, AID has also been active in two other areas which, ironically, resulted in part from its ill fated effort in the area of feasibility studies. One of them is karakul processing, while another was concerned with the promotion of tourism. Briefly, the record here is as follows:

a. Karakul Processing: In this area AID assistance was limited to product development and sales promotion. This was done through providing support in the establishment of

an independent Afghan Karakul Institute (AKI) which in a few years time has become the country's leader for the planning, co-ordination and development of the Afghan karakul industry. Here again, dynamic Afghan support by the right people proved the key to success. As a result, 1968-69 karakul exports came to \$14.5 million or an advance of some \$4 million over 1968. Because of product improvement, better sorting methods, and a better quality control, the average price of skins rose from \$6.50 in 1967-68 to \$8.16 in 1969-70. Even more important is the change in the product mix which changed to about 70 percent grey and 30 percent black karakul. This greatly improved Afghanistan's competitive position with Russia and South West Africa, which are offering principally black karakul. Three U.S. contractors have assisted in the improvement of the karakul industry.

b. Tourism : In the area of tourism AID assistance was relatively minor. The 1966 feasibility study on tourism prepared by a U.S. consulting firm merely provided the initial stimulus for further activities in this area which were spearheaded by the establishment of a modern Inter-continental Hotel. From then on the ball was quickly picked up by the Afghan Tourist Bureau. The statistics are quite eloquent. The number of people visiting Afghanistan increased from 621 in 1959 to 63,089 in 1969 - 10,000 of whom arrived by air (approx.).

IV. PRESENT PROGRAMME OBJECTIVES

Presently, the programme's broader objectives are 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 both the economy and the society
- 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, or social status

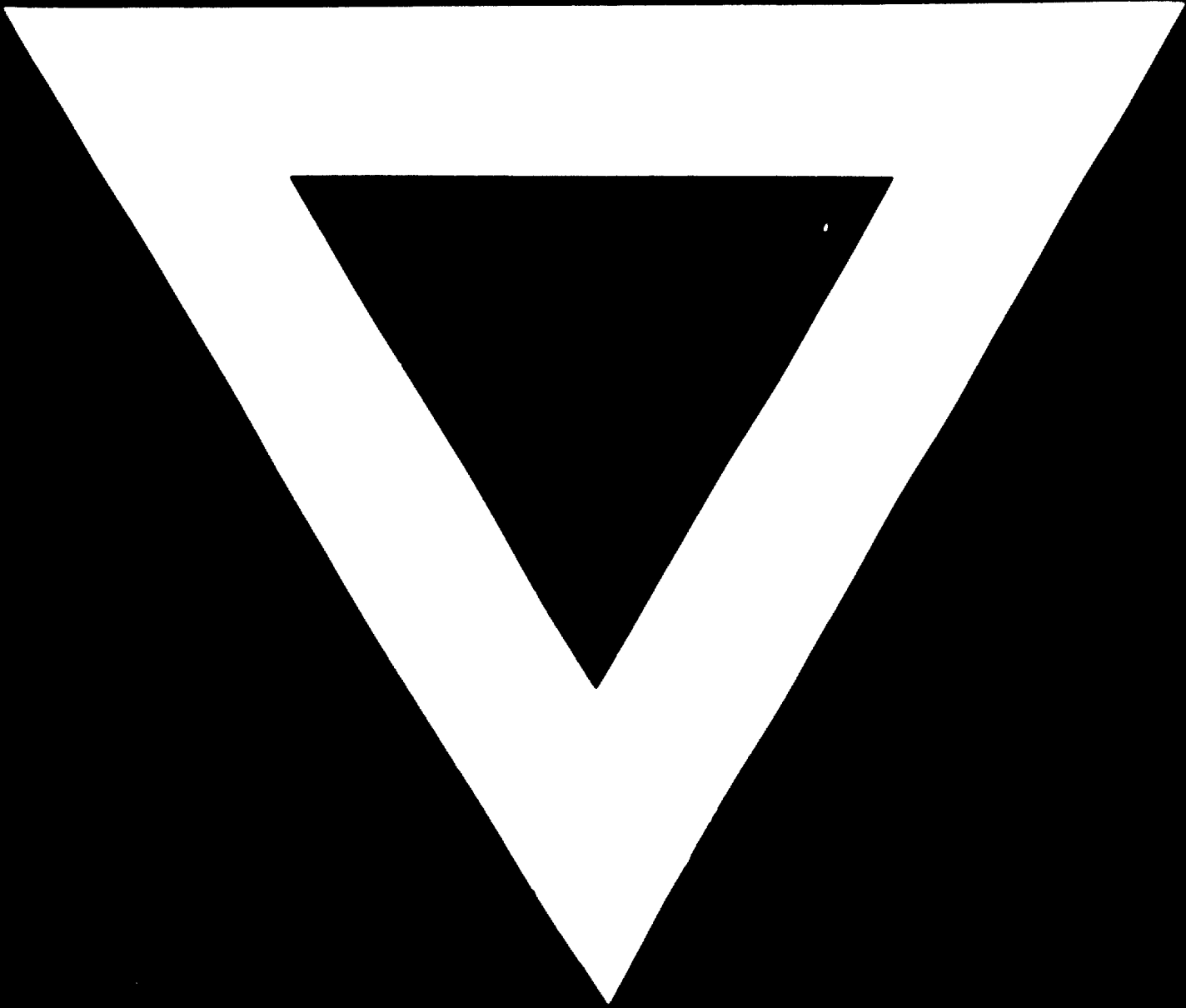
In more narrow terms, the programme is concerned with technical assistance in the creation of a number of infant industries as well as with providing the protection and support inherent in this concept. The general idea is that in the near future the private industrial sector should develop a certain "critical mass" of new industries large enough to enable it, in time, to fight its own administrative and political battles without the aid of foreign advisors. Obviously nobody can tell in advance whether such a "critical mass" will consist of 100 or 250 factories. A much better clue can be derived from the growth of a more vocal expression among the new industrialists, an increase in the labour force deriving wages from industrial development, the lesser reliance on intervention by the Ministers and foreign advisors in eliminating bureaucratic roadblocks, and the acceptance of the need for private industrial development by the country as a whole.

V. FURTHER INPUTS REQUIRED

What is needed to accomplish these objectives? Certainly not big money inputs, but rather critically important conceptual, advisory, training, policy and trouble-shooting support as well as proper co-ordination of the inputs of various donors who are largely concerned with highly specific technical support in distinct problem areas. Since the current AID programme in private enterprise development is coming to an end on December 31, 1970, the RGA has requested further U.S. technical assistance in the area of industrial policy making, industrial extension, and institutional development. This request is now under consideration in Washington. However, it should be noted at the outset that any U.S. sponsored programme is not designed to provide all or even the major elements needed for the development of private industry in Afghanistan, but rather, to make catalytic contributions in those limited areas for which the U.S. assistance is comparatively well suited.

The record we have to illustrate this. Once the U.S. contract group had made its initial catalytic contribution in getting the Industrial Park started, the Asian Development Bank picked up the project for further study, implementation, and financing. Likewise, in the karakul project AIS's effort was limited to getting the AKI started as a viable organization, thus enabling it to apply for further financial assistance from international organizations for its further growth. In a similar vein, the actual establishment of the Industrial Development Bank, insofar as foreign input is concerned, is likely to be turned over to a consortium of international banking institutions if and when the proper legislation is passed by the Parliament. Likewise, in the area of technical assistance there is a constant need for co-ordination with other donor countries in order to avoid possible duplication. So far technical assistance for this project from other donors has come mainly from the West Germans and the French. The British Government has committed itself to providing some assistance for the Investment Advisory Centre, to which the United Nations has also been lending some support in the form of one part-time leather and tanning expert.





74.09.13

1