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ASSISTANCE IN THE RECONSTRUCTION OF
THE PRIVATE SECTOR

DP/AFG/90/003

AFGHANISTAN

Technical Report: Financial Assistance for Afghan
Private Small and Medium Industry*

Prepared for the Government of Afghanistan
by the United Nations Industrial Development Organization,
acting as executing agency for the United Nations Development Programme

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A. Covering Report on the Consultancy

The financial consultancy extended for 3 months, 25 March - 24 June 1991. Its activities and outputs were designed to fit into and assist outputs 1 and 2 of the AFG/90/003 project: that is, assistance to the strengthening of Afghan private industrial enterprises; and assistance to the strengthening of Afghan institutions - CODAPI and others - which might help to promote Afghan private industry.

In this context, the term 'private industry' was and is taken to mean primarily enterprises in the manufacturing sector, but also including building contractors: these enterprises to be privately-owned and managed, and to be small/medium in size, with an employment range of about 10 to 250 persons engaged per unit. This meaning includes practically all formal Afghan private enterprises in the relevant sectors, excluding the numerous tiny microenterprises in tailoring, woodworking, the baking of nan, etc. At the upper end of the scale, there are indeed some private industrial conglomerates (with units in several diverse manufacturing branches) which unite more than 250 employees under common ownership and general management. However, the units almost always have less than 250 employees each, and are run in many respects as distinct enterprises: such units were included within the meaning of private small/medium industry in this consultancy.

The main thrust of the consultancy (see the Terms of Reference reproduced as Annex 5) was to investigate the feasibility of establishing a revolving finance fund, using US\$200,000 to be provided by UNDP, to assist Afghan private industry; and, if establishment was found to be feasible, to propose a detailed plan for the fund and lay down procedures for its operation; proceeding as far as possible therefrom to assistance with the launching and initial implementation of the plan. In the prevailing circumstances, not all these steps could be accomplished within the time available. However, investigation and preparation of the revolving fund remained the main focus of the consultancy, occupying 75% or more of time spent, and very substantial progress has been made.

Three other activities were pursued in parallel with the main thrust, and occupied the remainder of the time spent. First, at the request of the CTA, the consultant assisted in the preparation, implementation, and follow-up of the first Training Seminar, held at the project offices 23-25 April, for Afghan private industrialists, taking charge of the finance-function element of the seminar. This activity fitted into project output 1, assisting private enterprises: and, by providing a substantive supplementary opportunity to meet Afghan private industrialists and discuss with them their financial problems and needs, also assisted the consultancy's main 'revolving fund' thrust.

Secondly, at the request of the CTA and CODAPI, the consultant conducted a detailed enquiry into how CODAPI executes its evaluation of private industrial project proposals, and its assistance to the

proponent enterprises whose proposals have been approved by government led by CODAPI. Thirdly, at the request of UNIDO headquarters, he reviewed the state of general industrial feasibility/pre-feasibility studies ('industrial profiles'), and by implication project evaluation needs, at CODAPI, the Industrial Development Bank of Afghanistan (IDBA), and the research/extension departments of the two industrial Ministries. This activity was to indicate the need for, and scope of, UNIDO technical assistance in updating industrial profiles and strengthening local institutional skills in producing them and similar project evaluations.

Both of these latter two activities fitted into project output 2, strengthening institutional capacity to assist private industry. Although for the most part pursued separately by the consultant, it became apparent that their subjects overlapped and that their results could be linked.

On the matter of timing: mobilisation, briefing and introduction to the UN system and to counterparts in Afghanistan occupied the period 25 March to about 1 April; and demobilisation, debriefing and write-up of the final report, the period 16-24 June. In the intervening period, the main revolving fund thrust was pursued throughout, initially primarily focussing on the financial needs of private industry, and then moving on to the issues of a fund-operator and of funding sources including (unexpectedly) the possibility of a significant Soviet contribution under UN auspices. The direct work on the revolving fund was paralleled by the association with the Training Seminar and its follow up, broadly during the second half of April; by the assessment of CODAPI's roles, during much of April; and by enquiry into the matter of industrial profiles, at intervals from the end of April until the middle of June.

The accomplishments of the consultancy will be more fully evident from the separate sections below on its main activities. However, a brief introductory summary will be helpful here.

With respect to the revolving fund, it is believed that the feasibility survey has indicated that the present financial system, although 'functioning', serves the Afghan private industrial sector rather imperfectly in a number of respects. Inter alia, it is - particularly in its formal, official, segment - a rigid system; it is geared primarily to the commercial sector, including import-reexport trade, with industry very much an 'also-ran'. Specifically, several sorts of industrial financing need are imperfectly met, for example working capital, longer-term loans, and external equity funding. Of these financing needs, one of the most pressing, and one readily assistable by UN funding intervention, is short-term financing primarily for the import of raw materials and other operating supplies. Such financing can, if efficiently operated, become the base of a financially viable and growing revolving fund. In the course of time other, more difficult, types of industrial financing might be progressively added to the fund's operation without impairing its financial viability.

It is also found that a number of channels, both formal and informal, are in use for meeting the need for short-term finance. A review of the channels as potential revolving fund (RF) operators, has led to the recommendation that - under presently projected circumstances, which of course could change with unforeseen developments - a large, well-established, but currently still 'informal' finance company, be

posited as the RF operator. This recommendation is conditional upon the company's principal and his associates being able, within a reasonable period (probably 6 months to a maximum of one year) establishing itself as a formally registered and regulated private bank. It is believed that the present policy and legislative environment and trends - which are being supported, with government sympathy, by all the relevant personnel associated with AFG/90/003, including the CTA and the CODAPI General President - will permit the private bank's fully-effective establishment within the time-frame mentioned.

Furthermore, recommendations have been made regarding the purposes, lending criteria, organisation, regulations, procedures and lending terms under which the proposed RF would be operated. It is recognised that, in the present state of affairs, these recommendations cannot be regarded as the final word on the matter. Inter alia, matters largely outside the control of UNIDO and the UN system may significantly impinge upon them. Nevertheless, it is believed that they provide a good set of guidelines for operating an RF under most foreseeable circumstances.

Given the basic conclusions as to (a) the type of financing to be undertaken by the proposed RF, and (b) the conditionally-recommended RF operator, the issue of RF launch and implementation within the time-frame of the consultancy, did not arise.

There was, on the other hand, an unforeseen RF-related achievement of the consultancy within the overall project framework, viz. capitalising on an opportunity to augment the UNDP funding of the RF with Soviet aid contributions under the auspices of UNOCA/Operation Salam. This work is dealt with in more detail in the sections and annexes below. Suffice it to state here that the Soviet contributions promise to be significant in size; that they would be in the form of industrial raw materials, thus matching well with the proposed type of financing to be provided by the RF; and that a prodoc (to be considered as an annex to the AFG/90/003 main project document) drawn up by the consultant, has already received ready approval at the crucial inter-agency committee level in Kabul.

With respect to the consultancy's other activities, at this introductory stage of the report, an even briefer resume of accomplishments will be in order. It is sufficient to note here that the review of CODAPI's evaluation and assistance roles has resulted in recommendations for using the same basic organizational framework within CODAPI and government to make the establishment of private enterprises much easier and to enable CODAPI to render enterprises more substantive assistance. These recommendations have, it is believed, the full support of the CTA. Furthermore although the CODAPI General President's schedule has so far precluded review of the recommendations by him also, proposals made subsequently by the project's legal consultant (Mr. J. Westberg) which handle much the same issues in a very similar spirit from the legislative viewpoint, are known to have received the concurrence of the relevant government parties including the CODAPI General President himself.

The work of the consultancy on industrial profiles has revealed that none of the interested Afghan institutions has anything approaching a reasonable range of recent profiles or studies; that past studies appear to have been more the work of UNIDO and other foreign consultants than of these institutions; and that all of them would

welcome an input of UNIDO technical assistance in producing up-to-date profiles and in strengthening their own capacity to go on producing them. This has led to the consultant's drafting, with the approval of the CTA and UNIDO HQ, an outline programme for a short-term UNIDO TA input which emphasises fostering the Afghan institutions' sustainable capacity to produce profiles and other project evaluations themselves. Inter alia, the projected output of such TA would match well with the recommended re-casting of CODAPI's evaluation/assistance roles.

Finally, a word on the organisation of this report. The main text below is divided into two further principal sections. Section B deals with matters relating to the revolving fund: background and methodology; industrial financing needs; the proposed financing scheme and revolving fund operator; and recommendations/discussion of scheme implementation. Section C deals with the other principal outputs of the consultancy: the recommendations concerning CODAPI, and the outline programme of UNIDO TA in the matter of industrial profiles. Annexes 1, 2, and 3 - Industrial Enterprise Visit Reports, Commercial Bank of Kabul, and Prodoc on Soviet Raw Material Procurement - provide materials supporting Section B. Annex 4, Outline of Proposed UNIDO TA Input in the matter of Industrial Profiles, supports Section C. Lastly, Annexes 5 and 6, Terms of Reference, and Summary Itinerary/Activities, are provided to assist an overall perspective of the consultancy.

B. Report on the Proposed Revolving Fund for Afghan Private Small and Medium Industry

I. Background

In connection with output 1 of the UNIDO/CODAPI project AFG/90/003, the Financial Consultant (FC) was commissioned to:

- execute a survey of the need for, and the feasibility of operation of, a UN-backed Revolving Fund (RF) to assist in the financing of the Afghan private industrial sector, and particularly of industrial enterprises registered with CODAPI, the Afghan Government Agency charged with promotion and regulation of the sector, and
- should the survey prove positive, draw up procedures for the operation and regulation of the RF, and as far as possible assist in its introduction and initiation.

The above were maintained as the principal activities and outputs of the consultancy, which is to be seen in the context of government policy and the design and objectives of AFG/90/003 in reaction to trends in that policy.

The Government of Afghanistan believes that the best means of economic development is the encouragement of a strong private sector. However, at the practical level, and particularly for formal industry - the prosperity of which depends to a very significant extent on background infrastructure (interpreted in a wide sense) - there is a shortage of resources and of trained personnel who can render useful services. Moreover, many private industrial enterprises feel impeded by many of the prevailing laws, policies, procedures, and practices that regulate their operating environment both on the demand and the supply sides; and in particular the terms of their access to various vital resources, including inter alia licences, land, public utilities, raw materials, and finance. Among the main objectives of AFG/90/003 are measures to improve these terms of access (both to a sample of enterprises and in general); and plans for revising Government legislation, policies, and procedures to make the environment more helpful for the development of private (particularly industrial)

enterprises.

In keeping with these AFG/90/003 objectives, the need for and value of any proposed RF should be assessed not merely by projected immediate effects of the UN-provided industrial financing - albeit these may be of themselves significant - but also by favorable shifts in the broader environment of policy, procedures, and terms of access to finance, which the fact and the form of a UN funding intervention may be reasonably expected to encourage.

II. Methodology

The RF work of the consultancy first focussed on assessing the needs and capabilities of Afghan private industrialists. This was based in the first instance on visits by the FC, accompanied by CODAPI counterparts, to 16 CODAPI-registered private industrial enterprises in and around Kabul. Their branch-wise distribution is covered in sub-section III below. The information supplied by these visits is summarised in the Industrial Enterprise Visit Reports, which are appended as Annex 1 to this Report. This information was supplemented and confirmed by extensive further discussions with private industrialists, primarily (a) within the format of the AFG/90/003-conducted Training Seminar for private industrialists held in late April, together with its follow-up activities, and (b) in connection with researching the opportunity to augment UN funding of an RF by Soviet aid contributions made in the form of industrial raw materials under the auspices of UNOCA/Operation Salam.

Concurrently and subsequently, the FC visited several public and private finance-sources/potential RF operators, in some cases several times with extensive discussions ensuing. The objective was to round out from the financial institutions/sources' viewpoint, the picture of actual and potential Afghan industrial financing; and, in potentially promising cases, to assess the operations, capabilities and constraints of candidate RF operators (it being assumed at the outset as 'the null hypothesis', that the actual management of any RF should be undertaken by a specialist and professional institution/operator in financial markets.)

These visits and discussions were further augmented by FC interviews with the financial authorities, most notably the Minister of Finance and successive Governors (General Presidents) of the Central Bank (Da Afghanistan Bank), and by frequent interchange with the CTA and the international legal consultant of AFG/90/003 and with the General President of CODAPI. These high-level discussions provided good opportunities to assess the present financial policy environment and its probable development; high official attitudes to an RF and selection criteria for its operator; and, in the case of the CTA, also to become familiar with his knowledge and experience of the Afghan industrial sector.

Thus the basic methodology covered assessments on the demand side (the private industrialists) of industrial finance; the supply side (the finance institutions/operators); the policy side (the high officials); and also included assessments of potential RF operators. All these aspects needed to be covered to assess the need for, and feasibility of operation of, an RF.

In all this, it is assumed that this Report's readers are well-informed about the political and economic background in Afghanistan, and the general operating environment and broad scale of operations of Afghan industry. Systematic exposition of such background and macro-data - and in particular of macro-statistics,

which in the long-disturbed prevailing conditions are likely to be unreliable and/or outdated, has therefore been eschewed, in favour of concentration on more immediately relevant topics.

III. Financing Needs of Afghan Private Industry

As noted above, 16 private Afghan industrial enterprises were formally visited, to assist in forming a picture of typical enterprise capabilities and financing needs. Annex 1 comprises the Visit Reports of these enterprises. Their branch-wise distribution was:

Plastics products	2
Cardboard cartons	1
Woodworking	1
Textiles/carpets	2
Garments	2
Metalworking	4
Tannery/shoes	2
Food/drinks	2

In employment-size, the enterprises exhibited a range of 10 to 200 persons employed, with 10 enterprises in the range 20-80 persons employed. Only 3 enterprises had employment greater than 100: and of these, one was a manufacturer of hand-woven carpets, most of whose 'employees' are outworkers in country areas outside Kabul.

Due to high inflation, and understatement by the interviewees (the FC was accompanied by a CODAPI counterpart on each of the visits), trustworthy comparable figures on assets employed were not available. However, from inspection the general impression conformed to that provided by the employment figures, viz. that the firms were predominantly small to medium enterprises. Despite the sometimes impressive extent of barn-like buildings, only about 4 were fully-fledged substantial larger-medium industrial undertakings with probable equipment investment well into seven-figure US\$ amounts: and of these, one was not currently operating, and another was not operating its principal (textile) department. On the other hand, the firms were definitely not micro- or cottage enterprises. With the exception of the (substantial) carpet manufacturer, they all used significant equipment over and above hand-tools.

Based on these visits, supplemented by extensive subsequent discussions with these and other private industrialists, what are the principal problems of Afghan private industrial enterprises? Generally not demand, except for one or two producing luxury items, such as high-quality furniture, for the domestic market. In most product lines, their markets were under-supplied.

The two major problems are logistics, and deficiencies of raw material supply. By logistics, are meant shortages of factors of production engendered by the last 13 years of civil war: notably of serviced industrial land, reliable electricity supplies, and skilled labour.

As for raw material deficiencies, these come under several related headings. First, direct problems, for obvious enough reasons, in transporting the enterprise's import shipments from abroad to Kabul. Second, sometimes problems of the first type in the past on a particular route have tied up consignments outside the country, leaving the enterprise unable or unwilling to re-ship them thousands of miles, or to finance fresh consignments. Third, particularly for smaller enterprises who purchase their materials - of whatever ultimate origin - from Kabul traders, shortages are transmuted into high purchase prices. And finally, the complaint of high raw material

prices sometimes shades into what is more properly a demand problem, viz. the high input prices forcing output prices to rise above what the market will bear, or at least severely cutting margins. This complaint is heard most frequently from manufacturers who have other factories and trading interests. Not only can they switch to other, more profitable, lines of business: often they were in the first place lured into the (now) unprofitable line by subsidised input prices, since discontinued.

These 'switching' manufacturers aside, most enterprises were 'making do' surprisingly well, helped no doubt by the generally buoyant demand which is the obverse side of supply shortages: and by their own evident entrepreneurial spirit. Nevertheless, most of them could do significantly better if the supply of raw materials, and of finance to assist their purchase, could be increased.

In most industries, raw material supply is the constraining factor. Past industrial development - much of it under subsidised conditions - coupled with economic retardation due to civil war, has left the country with surplus and underutilised industrial capacity. Of the enterprises talked to, only one was operating 3 shifts, and the great majority are on one-shift operation. In several important industries - for example, confectionery, textiles, raisin-processing - it is common knowledge that only a fraction of the enterprises are in active operation. Naturally, some of the smaller and more recently-established firms - notably in tailoring and metal-working - are in a growth phase, still being built up by their owners who are typically technical specialists rather than multi-industry 'traders'. These firms face shortages of capacity and fixed assets as well as of raw materials. But such nascent firms apart, only one enterprise - a plastic sandal concern - expressed an immediate and unsatisfied need for new equipment to meet burgeoning demand. Overall, it is shortage of raw materials, not of capacity, that is the principal factor currently retarding private industrial expansion.

What are the enterprises' financing practices? Particularly for fixed asset purchases, Afghan industrial enterprises are currently overwhelmingly self-financed. Although Industrial Development Bank of Afghanistan (IDBA) occasionally makes loans partly for constructing buildings, no instance of this was found among the enterprises talked with (25 or more of them, during the formal visits and subsequently). Land and buildings are almost always directly financed by the enterprises themselves, except for some smaller enterprises who operate - conforming in this to a practice widespread throughout the world - in premises rented either privately or from publicly-owned estates ('industrial serais').

Equipment, too, is normally self-financed. Four enterprises received IDBA loans partly for equipment purchases. However, like most IDBA loans, these were relatively small. The general feeling was that equipment must be, and is, predominantly financed from the enterprise's own funds, whether the promoter's savings or, subsequently, piece by piece from retained earnings. This is the accepted practice. Talking to entrepreneurs, one senses a reluctance to use external finance, particularly in the form of debt obligations, for long-term assets unless such finance is available on very easy (i.e. subsidised) terms and conditions. Some enterprises - even those whose owners are specialists without separate trading interests - have built up very impressive accumulations of equipment over the years through the progressive ploughback of retained earnings. Provided the

entrepreneur has invested reasonably wisely, shortages make for margins permitting this pattern of self-finance.

It is thus clear that fixed asset finance from external sources is very underdeveloped in Afghanistan, although much less clear that this deficiency is a serious current problem, except arguably by slowing down the potential growth of some of the newer and smaller enterprises.

Working capital finance, primarily of raw materials, presents a more complex picture. Of the 16 enterprises formally visited, only 3 had not received working capital finance from one external source or another: and of these, one was just re-starting operations and expected to receive such external finance in due course: it is having discussions with a large commercial bank. Frequently, enterprises received external working capital finance (EWF) from not just one source, but two or more sources.

A common form of EWF was associated with letters of credit (l/c) opened for the import of raw materials, usually by the State-owned commercial banks. This system involves part-financing - on fixed terms regulated by the government's financial and commercial authorities - by the commercial banks of import consignments in the interval (typically 2 - 4 months) between payment of the foreign supplier and the receipt of the goods in the Afghan customs house. 8 of the 16 visited enterprises used this form of EWF, half them habitually, half of them 'sometimes'.

Besides this, 6 of them had received loans - usually small - at one time or another from IDBA, partly or wholly for purchase of raw materials. Three more had received commercial bank loans either for export shipment finance (2) or purchase of seasonal domestic raw materials(1).

'Informal' EWF sources were also very significant. As many as 8 of the visited enterprises had received short-term (one week to six months) trade credit on raw material purchases from their commercial suppliers in Afghanistan. Additionally, 5 had received short-term (3 weeks to five months) EWF from other informal sources. For at least 4 of these 5, the source was one or other of the money and foreign exchange dealers in the Serai Sharzda, the big private free market in Kabul that handles the bulk - at least, for private sector needs - of the country's foreign exchange dealings. The frequent use of informal sources, often at high effective interest rates, indicates deficiencies in the workings of the formal finance sources, IDBA and the commercial banks, all of which are State-owned. This is further discussed in the next sub-section.

Summarising, the Afghan private industrialist is typically making do, with a generally buoyant demand working with his entrepreneurial spirit to some extent compensate for operating conditions which are otherwise very far from ideal. Among his main problems is one - raw material supply and finance - which it may be possible for the UN system to alleviate more or less directly and rapidly, as is further discussed in the succeeding subsections.

On the finance side, the predominant form of external finance for the Afghan private industrial enterprise - that is, finance other than from the enterprise's or its owners' own funds - is short-term working capital finance, primarily for purchase of raw materials. Fixed asset

external finance. whether equity or longer-term debt, is on the other hand very undeveloped. In the long-term, this is a feature of the industrial financing scene which needs attention. For the immediate future, however, it is neither so pressing as short-term finance needs, nor as practicable to address. In a situation of general surplus fixed capacity in most industries, equity venture capital to help the establishment of new enterprises is not the most immediate priority. Moreover, long- or medium-term debt finance is unlikely to be viable to a finance institution, since low government-regulated ceiling lending-interest rates (10-12% per annum) interact with high inflation rates (25% per annum or more) to yield a negative real lending return - in plainer English, a loss in constant purchasing-power terms - to the institution.

IV. The Proposed Financing Scheme

If a UN-supported Revolving Fund (RF) is to be set up, the first point to note is that the funds committed from UNDP to it are relatively small: US\$200,000 from the UNDP General Fund. Even though private industry is not very well developed in Afghanistan, it will be evident that such a sum can of itself make only a modest (even if useful) contribution to the country's industrial development.

A UN funding intervention in the industrial finance market should be catalytic. It should therefore meet at least three criteria: (a) it should serve a felt immediate need of Afghan private industry; (b) it should further longer-term and wider economic development goals, particularly those pursued within the framework of AFG/90/003; and, relatedly, (c) it should be financially viable to both the users and suppliers of the finance, and thus be capable of self-sustained growth, both internally and by attracting further sources of finance.

Any alternatives - in respect of the type of finance to be offered to private industry, and of the selection of an RF operator - need to be considered from the viewpoint of the joint operation of these catalytic criteria.

At first sight, it might appear that a wide range of types of finance might usefully be offered - e.g. equity venture capital, long-term debt capital, short-term finance. However, in present circumstances of general surplus capacity and raw material shortage, equity venture capital for new start-ups would be of very doubtful utility. Its most obvious effect would be to add to the capacity chasing a deficient supply of materials and physical infrastructure such as serviced industrial land. Moreover, even in normal economic circumstances and more developed capital markets, new start-ups and venture finance to support them are notoriously risky, which argues strongly against the financial viability of a venture capital fund in present Afghan circumstances.

Long or medium-term debt to finance fixed asset expansion suffers from rather similar drawbacks. Generally speaking, capacity expansion is not the most pressing need. Moreover, longer-term debt finance is presently provided primarily - if not indeed only - by IDBA, at low interest rates (7-10% per annum) set by the prevailing government authorities. IDBA's loans are nearly all small, typically equivalent to about US\$5,000 - US\$20,000. This size of loan is considered too small by many of the interviewed industrialists, who would need many times that amount to finance a single significant equipment expansion. Such a bottleneck cannot be removed for them by a UN funding intervention of US\$200,000, which could very easily be tied up for three or four years in making one or two fixed asset loans.

This is not of course to argue that all individual fixed asset loans

would have necessarily to be on such a scale. Some smaller enterprises, for example in tailoring or some metal-working branches, could find a use for smaller equipment loans. However, it is doubtful whether such loans could earn a real return on investment to their supplier. If interest rates close to IDBA's were charged, they would quickly erode the real capital of the RF under prevailing inflationary conditions. Even if the financial authorities would permit much higher RF fixed asset loan interest rates - which in the short term is extremely unlikely: such changes in the general regulatory and financial environment typically come about in a measured evolutionary manner - RF loans would then find themselves competing with IDBA's low interest rates. Although other RF loan conditions (for example speed of delivery, collateral and security requirements) might be set more attractively, it would be very difficult to attract customers from an industrial clientele accustomed - insofar as it accepts longer-term debt obligations at all - to receive them at low interest rates.

All these reasons, operating in combination, make a UN intervention based on fixed asset longer-term loans inadvisable and unattractive at least in the near future.

There remains the possibility that a UN-supported RF should, at least in its initial years, concentrate on short-term loans primarily for the purchase of raw materials. This is the type of finance which is currently commonest in Afghanistan, and the most familiar to borrowers and lenders alike. A range of lenders - both formal and 'informal' - know and operate short-term working capital loans. Thus, an RF concentration on short-term lending for raw materials widens the choice of potential RF operators, an important point if the RF is to achieve financial viability and growth.

It may be asked, if this is the case, why add to the commonest type of finance already available? But habituation of supply does not imply adequacy, either in quantity or quality. The very prominence of informal sources in the business of short-term industrial finance, indicates deficiencies in the supply from the formal, State-owned, financial institutions, which operate under highly-regulated terms and conditions which impair their flexibility and very probably increase their operating costs and reduce their access to depositors' funds.

Moreover, raw material supply remains, as noted in the preceding sub-section, one of the most pressing needs of the Afghan private industrialist; and there is now an opportunity, in financing raw material supply, to enlarge the UN-sponsored supply of funds to an RF at the outset. These two points have been reinforced together for the project AFG/90/003, in a most direct and encouraging way.

As part of the general rehabilitation of Afghanistan in current conditions, the UN has set up UNOCA (Office of the Coordinator for Economic and Humanitarian Assistance to Afghanistan). The basic UNOCA activity is Operation Salam, to which the Soviet Union is much the largest single donor, with a contribution of 600 million roubles tied to Soviet suppliers of goods and services. Of these, only 170 million have yet been spent or committed to specific orders. One element of Operation Salam is a 'multipurpose fund', 20 million roubles on open account to any UN agency which can make an acceptable proposal for their use. Proposals, which have the form of annexes to UN procecs, are considered and approved by a committee representing all the relevant UN agencies operating in Afghanistan, including UNIDO and UNDP. The multi-purpose fund has only recently been introduced. UNOCA considers it very likely that, if large-scale and efficient use comes to be made of it, further funds would be shifted into the facility from other under-spent components of the Soviet overall contribution.

As soon as the scale and immediacy of this potential opportunity

became clear in discussions with UNOCA in late April 1991, the CTA of AFG/90/003 convened a project task force led by the FC, to explore it further. Preliminary discussions with Afghan counterparts, engineers, and industrialists indicated that Soviet equipment - except for very heavy industry - is held in low esteem in Afghanistan. On the other hand, a wide range of Soviet industrial raw materials is valued and used among Afghan private industries. Acting upon this lead, discussions were held with active industrialists representing several branches, from food-processing across to metal-working and construction. The concept was put to them that a loan-fund might be set up, based on Soviet raw materials in common use in their respective branches. The loans would be short-term. Specific assignments of raw materials would be made over to individual credit-worthy enterprises, in return for their contracting a short-term monetary loan obligation to the fund. The amount of the loan - interest payments aside - would be set by valuing the made-over raw materials at, or very marginally below, their current market price in Afghanistan. Principal and interest would be payable in money, which would then be used finance further short-term loans. These might also be based on Soviet raw materials: or not, as the balance of economic advantage lay. In this way, a financially-viable loan fund could be set up; and the supply of industrial raw materials increased, hopefully bringing their prices progressively down. It was emphasised that any such scheme would be operated at a profit, to enable the fund to grow. It would not involve grants or concessionary prices or interest rates.

The great majority of industrialists consulted, responded very favourably to this concept. They cooperated by supplying specifications, current prices, and required quantities, of many Soviet raw materials in common use. Suitably collated and discounted, a detailed list of requirements - which would constitute a component of the initial base of an RF - was drawn up, and incorporated into a prodoc which forms an annex to the basic AFG/90/003 project document. This annex prodoc was drafted by the FC after discussions with the CTA and with UNOCA and related UN personnel in Mazar-i-Sharif and in Termez, the Soviet border and transit port and UNOCA's headquarters in the Soviet Union. It is appended as Annex 3 to this report, and was approved by the UNOCA inter-agency steering committee in Kabul at a meeting just prior to the FC's departure from that city. The initial amount approved (for calendar 1991) was 2 million roubles. There was no resistance to the concept of supplements in subsequent years, but the necessary scale of such supplements must await the pricing of the procurement list in the Soviet Union, now being addressed by the UNOCA office in Termez. However, there is at least a good possibility that project Soviet procurements via UNOCA for an RF will amount to an actual value equivalent very considerably greater than the UNDP US\$200,000 cash commitment.

This experience illustrates very graphically both the concern of Afghan private industry for raw material supply and finance; and an attractive opportunity, based on such finance, to expand significantly the amount of UN-sponsored funds available to an RF at its inception. Both these points are important, but the first is crucial, for it confirms an unsatisfied demand for short-term raw material finance despite the several channels now supplying such finance. This in turn indicates that a UN funding intervention in favour of this type of finance, whether restricted to US\$200,000 or (as now appears likely) leveraged to a substantially larger total, will serve an immediate and real need of Afghan private industrialists.

Moreover, an RF concentration on short-term raw material finance will permit the RF to be financially viable and capable of growth, provided it is efficiently operated. There is much less resistance among Afghan

private industrialists (and financial authorities) to economically-realistic returns being earned by finance-suppliers on such financing, than there is to realistic interest rates on longer-term debts. Reasonable returns on short-term loans are earned and countenanced in various ways. On domestic loans in Afs. - for example, trade credit from a merchant supplying raw materials - interest rates of up to 5% per month are charged. With the bridging loans associated with letters of credit, 12% per annum is the normal State-owned commercial bank rate for industrial raw materials: but (a) the obligation is effectively denominated in hard currency terms, yielding the bank or other finance-source a real return after foreign inflation, and (b) the fees and commissions charged on opening the L/C, the associated foreign exchange transactions, etc., typically more than double the overall return to the finance-source. Thus, provided funds are turned over quickly and efficiently, and loan-clients are wisely chosen. short-term finance for operating needs - usually raw materials, but also including spare parts supplies and export shipment finance at need - can and does yield a substantial real return to its supplier. It follows that if its operator is efficient, an RF based on providing short-term finance should be financially viable and capable of growth.

What, then, of the choice of operator? It was taken as a 'null hypothesis' - which investigations in the country have done nothing to invalidate - that if the RF is to be financially viable, then its operator must be a financial institution. Non-financial bodies, both international and Afghan, may and probably should have an overseeing and general policy-setting role, but the actual authority for making loans and conducting other necessary transactions should be vested fully and unequivocally with an experienced financial operator. Examples of the disastrous consequences of failing to observe this principle are legion throughout the developing world. However, for a typical illustration one need look no further than recent Afghan experience itself.

Since the mid-1980s, IDBA's sister State-owned sectoral bank, Agricultural Development Bank (ADB) has operated - or attempted to operate - a revolving fund with finance from the Swedish International Development Agency via FAO. The fund is for cooperatives who would not normally meet the bank's lending criteria, and extremely soft terms - 3% interest rate per annum - were set for it (not by ADB). Moreover, the individual cooperatives and loans have to be recommended and approved by the Ministry of Agriculture. The results are predictable: politics, bureaucracy, extreme slowness in getting loans approved. Because it does not have full authority to operate the fund, ADB does not regard the programme as its own. For this reason, and because it receives only a 1% annual service charge for operation (not even the 3% interest), ADB does not like the programme. Only 5 loans have been made in 5 years, and only 30% of the fund has yet been disbursed. Recoveries are minimal, far below the modest average recovery standards of ADB.

Doubtless partly reflecting experiences like these, UNIDO and UNDP have begun to design and implement loan-fund schemes based on the 'contract with a fully-competent financial operator' principle. UNIDO researches the feasibility of a fund, and selects the operator; UNDP finances the fund; and the operator receives full authority to select loan-clients and approve, disburse, and collect the loans; the UN merely agrees operating guidelines with the operator, and monitors the overall observance of the guidelines and general performance of the fund. Two recent UNIDO/UNDP examples of the principle are to be found in Guinea, where the operator is a private-sector commercial bank; and in Uganda, where it is private finance company with large private

international banks as prominent shareholders. Phase I of the Guinean scheme has been successfully implemented, and a follow-up Phase II is in the works: the Ugandan scheme is still under final negotiation.

In the case of AFG/90/003, the selection criteria for an RF operator are those already noted: serving an immediate need of Afghan private industry; RF financial viability; and furthering broader economic development goals, in particular those pursued within the framework of AFG/90/003.

With respect to loans to Afghan private industry, there are only three types of financial operator with substantial general experience: (a) the State-owned commercial banks, including the Central Bank operating as a commercial bank; (b) IDBA, and (c) private money-dealers and financiers operating in the Serai Sharada.

Substantial discussions have been held by the FC with all three categories. Of the three, the state-owned commercial banks appear, at least under present circumstances, to be the least promising as RF operator-candidates. They are extremely secretive, and reluctant to divulge even basic quantitative details of their operations. An estimate even of the combined scale of their loan operations was obtained only from the then-Governor of the Central Bank. Sector and branch-wise breakdowns, recovery rates, arrears, term-distribution of loans, etc. were not available. Only the common and publicly-known regulated structure of deposit and loan interest-rates, official mandatory advance deposit proportions on letters of credit for various sorts of imports, etc. were freely revealed by these banks. They are thus largely an unknown quantity, and as such unfit to operate an RF whose keynote must be financial efficiency.

Moreover, discussion with the top financial authorities - the two Governors of the Central Bank who successively held office during the period of the consultancy, and the Minister of Finance himself - revealed their preference that an RF should not be operated by the State-owned commercial banks. They thought that it would be lost among these banks' other loan operations, which total US\$90 million per year, mostly in favour of traders; and also cited the bureaucracy and relative slowness of their procedures.

From their side, although private industrialists do use the State-owned commercial banks for letters of credit and the associated bridging loans, they are by no means generally satisfied with them. A representative 'finance working group' emerging from the late-April private industrialists' seminar run by AFG/90/003 listed among financial problems the disingenuity of these banks in taking on l/c business. They stated that the banks sometimes claim correspondence relations with suppliers' foreign banks when in fact they have no such relations with those particular banks. The result is considerable delay and frustration. The group also criticised the fixed advance deposit proportions on l/c s, demanded by the banks in accordance with the regulations laid down by the financial authorities. One large industrialist - not a member of the working group - further criticised their high and fixed fees and commissions on the l/c-associated transactions. He stated that whenever he can do so, he avoids opening l/c s via the State-owned commercial banks, preferring to use private unsecured inter-bank transfers whenever practicable.

Thus, although the State-owned commercial banks do have experience of short-term finance to industry, it is within a highly regulated

framework that leaves little to their initiative except the selection of loan-clients. Moreover, the financial efficiency of their operations - their costs, and losses and arrears if any - is an unknown quantity. Reports that they have had recent recourse to loans from the Serai Sharzda private money-market to finance their wage bills, are hardly reassuring in this connection.

A further, and very compelling, reason against placing a UN-funded RF with these banks involves the pursuit of broader economic development goals. In accordance with Government policy, AFG/90/003 is concerned to further the reconstruction and development of the private sector. The State-owned commercial banks are the largest locus and symbol of current deficiencies of the formal financial system in its services to the private sector. As far as possible, the placement and operation of a UN-funded RF should provide an example of efficiency to the Afghan financial system, and act as a focus and force for structural reform of that system. It may be hoped that at least some of the following improvements may be assisted or accelerated: speedier, less bureaucratic, loan approval and disbursement procedures; more emphasis on lending to borrowers who can use funds effectively for industrial purposes, rather than those who can provide, or are willing to tie up, collateral; improved loan recovery rates and rapid turnover of loans, thus widening re-financing capability; freer use of funds by industrialists from less tying-up of operating assets by insistence on security; lower financial intermediation costs from reduction of bank operating costs through increased competition; the progressive liberalisation of regulated systems of fixed loan and savings deposit interest rates, advance deposit proportions on l/c s, and commissions, towards a flexible, market-determined system; prospects of increased domestic capital (savings) mobilisation; and possibly even encouragement of progressively wider privatisation/de-nationalisation of the banking system.

None of these improvements would be encouraged by selecting one of the State-owned commercial banks as an RF operator in the present circumstances. Indeed, given that the high financial authorities have expressed themselves to the FC and the CTA in favour of these improvements, and against placing the RF with the State-owned commercial banks, selection of one of them would be a retrograde step giving entirely the wrong signal to the Government. It might be a different matter, if wide-ranging reforms of these and other banks and their regulatory environment were already in full train to effect the desired improvements. Then it would become possible to reconsider these banks as serious RF-operator candidates. But at the present juncture, placing the RF with State-owned commercial banks would most probably rather fortify their rigid financial system rightly criticised by the industrialists it is supposed inter alia to serve.

However, industrialists - both large and small - are even more critical of the other State-owned operator-candidate, Industrial Development Bank of Afghanistan (IDBA). It is true that 7 of the 16 visited enterprises had received IDBA loans. However, only one of the loans was at all substantial, and that was made 5 years ago to a textile operation which has been closed for the past three years and is only now planning to re-start operations. Even more important, of the 7 visited enterprises receiving IDBA loans, only 1 has gone back and obtained a repeat loan. The reason is the industrialists' universal opinion about IDBA, whether or not they have received loans or have even approached IDBA to get them: 'Too small, too slow, too

much bureaucracy. It takes months, and the meeting of many conditions, to receive a loan that is not worth the trouble it took to get.'

In some senses, this is a little unfair to IDBA. The FC has spent a considerable amount of time with the senior management of IDBA, and has respect for them and the operation they run. Unlike many of its analogues in other countries, IDBA manages to make a profit, at least in historic-cost (i.e. non-inflation-adjusted) accounting terms. From the evidence of project files examined with IDBA managers, the bank is not over-tardy in executing each of the steps of its procedures. Longer intervals often stem from industrialists' own delays in proceeding to the next step.

Yet in many other respects, IDBA exhibits the failings and handicaps of a traditional publicly-owned sectoral development bank. It operates at best a semi-financial system. It was and is set up as governmental agency to 'assist' industry, not to do business with it. This is interpreted as providing finance at low interest rates in Afs., even for medium-term loans in highly inflationary conditions.

On the one hand, this means that IDBA is unable to attract private capital by offering competitive deposit rates, and is thus dependent for funding on its own capital and reserves plus any 'soft' funds it may receive from the Government or the Central Bank. On the other, because its loan interest rates are highly concessionary and even negative in real terms, it would be swamped with loan demand - both honest and less than honest - if it did not make its loans relatively unattractive in other ways. Thus its small loans; its bureaucratic procedures; its attempted safeguards to ensure 'proper' use of its loans; its insistence on formal security for its loans, even to the point of tying up some of an enterprise's stocks as security for loans to purchase further stocks; its lengthy appraisal documents and loan agreements; in a word, its excessive caution; may all be regarded as measures to protect some financial integrity for the bank against its own basically non-financial system and remit: which are themselves a standing invitation for private businessmen to regard it as a public assistance agency to be cheated as much as they dare.

Moreover, and not unconnectedly, it has relatively small resources and operations. In AH 1369 (1990/91) it made only about the equivalent of US\$6-700,000 in loans, averaging about US\$12-15,000 per client. Also, its recovery rate is not impressive. It fell from about 75-80% in previous years to 60% in AH 1368. It is stated by IDBA management to have risen modestly in AH 1369, but figures are not available. Moreover, despite some knowledgeable and serious senior managers, IDBA has very slender overall resources of trained management and competent professional staff, and even slighter transport resources: it has only one old car for all operations other than the transport of its President and the home-to-office transport of its other staff.

Clearly, IDBA in its present form is an improbable candidate to operate a financially-viable RF. IDBA management argues that new procedures can be adopted by it, to suit RF needs. However, this is not a realistic option. IDBA has been in operation since 1969. Long-standing institutions do not effect major changes in their procedures, their ethos, their clientele, the perception their clientele has of them, or the perception of Government as to their role and remit, overnight or even over a year or two. Nor can an institution realistically operate two widely different loan-systems - existing and RF - for essentially the same private industrial clientele, particularly if it has only slender management and other infrastructural resources.

A more sensible relation of IDBA with a UN-funded RF, and one that would be fully congruent with pursuit of improvements in the financial system of the country, would be observer status on a body setting RF policy and reviewing reports on RF operation submitted by the RF operator. IDBA would thus be enabled to observe an alternative loan-system in operation and, if that system were found attractive, to take steps - both internally, and by lobbying the Government and the financial authorities - to alter its own system accordingly. This would be one way in which an efficient RF could serve as a model to other Afghan financial institutions and a focus and a force for their strengthening and reform. Again, this judgement is based on present and presently foreseeable circumstances. Were Government regulatory and resource-allocation policy towards IDBA to change radically and quickly at a practical level, then - as with the State-owned commercial banks - it would become possible to reconsider it as a serious RF-operator candidate. But the route to change suggested by the above 'observer' scenario, seems presently more probable, more natural, and more likely to succeed.

Of the three types of experienced financial operator in the country, there remain the private money dealers/financiers of the Serai Sharzda, the free-rate foreign exchange market in central Kabul. This is a recognised and large-scale institution. The dealers have their own trade association with elected officers. They operate from a honeycomb of offices (each of which is said to carry an annual rental of US\$12,000) throughout a large formal building, the Serai Sharzda itself, which is thronged with people at all hours of every working day. An IMF-staffer who recently visited the Serai said he had never seen anything like it. UN staff in Kabul routinely use the Serai dealers to exchange foreign currency into Afs. There is even a UNDP Afghan staff-member whose main function is to execute these transactions for UN personnel and consultants.

The leading dealers are very wealthy men, who have branch or corresponding offices in Peshawar and other foreign centres, with which they are in daily telephonic or telex communication direct from their Serai Sharzda offices. Collectively, the Serai dealers account for a very large proportion of all foreign currency dealings in the country, and the great bulk of those of the private sector. In the course of their operations, the larger dealers frequently make short-term loans to their clients, particularly to finance import shipments. All these transactions are conducted very quickly and informally, without bureaucracy on the spot or over the phone (local or international), on the basis of personal knowledge, reputation, and trust.

The Serai is presently the closest thing in Afghanistan to formal private-sector banking institutions. However, this should very shortly change, with the recent evolution of constitutional law and government policy. This has been indicated in the clearest terms by very high officials face-to-face with the FC and the CTA. The recently-replaced Governor of the Central Bank (now appointed Deputy Minister of Commerce) stated that, in his opinion, Article 20 of the Constitution already permits the formation of private-sector banks under the law, and has drafted a Banking Law amendment to regulate their formation and operation. His successor as Governor says that he has instructions from the President and the Prime Minister to review this amendment as quickly as possible, in the expectation that it may be passed by Presidential Decree during the summer recess of Parliament. The Minister of Finance, the Governor's superior, has equally clearly stated his whole-hearted support for the formation of private-sector banks, which he expects to provide much-needed competition to the state-owned commercial banks. The Prime Minister is reported by the Minister and the Governor to be also in strong support of the

formation of private-sector banks.

In parallel with these developments, the pre-eminent Serai Sharzda dealer, Mr. A.B. Omarzay, already has far-advanced plans to establish a private-sector commercial bank on a considerable scale in Kabul, with offices also in other centres. The name of the proposed bank is Commercial Bank of Kabul (CBK). Omarzay and his principal associate, Mr. M. Sarwar, have described these plans - and details of Omarzay's extensive current operations - at length and in detail to the FC and also to the CTA. The information thus provided forms the basis of Annex 2, to the perusal of which readers are now directed before reading further in the main text of this paper. It will be evident that Annex 2 is a highly confidential document, to be kept at this stage strictly within relevant UN circles. It has been read only by senior AFG/90/003 international and UNIDO HQ staff, and the detailed information on which it is based has been similarly restricted. There is very little doubt however that the broad essentials of the information are well-known through Afghan circles to the highest financial and political authorities in Afghanistan; and no doubt at all that these same authorities are fully aware of the CBK plan and of Omarzay's and Sarwar's unique qualifications to initiate formal private-sector banking in Afghanistan.

Based on this information, taken together with the favourable attitude of the Afghan authorities and extensive face-to-face meetings of senior project staff with Omarzay and Sarwar, it is believed that, in the present circumstances, the selection criteria for an RF operator are best met (and overall, very adequately met) by the proposed Commercial Bank of Kabul. It is accordingly recommended that an RF for Afghan private industry be set up concentrating, at least initially, on short-term loans; and further recommended that, provided CBK commences effective operations roughly as envisaged within a reasonable period - say six up to a maximum of twelve months - that the RF be placed under the operation of CBK, subject of course to finalisation of a satisfactory RF-operation with that institution.

Among the favourable factors supporting this conditional recommendation of an RF operator are:

- CBK is likely to be a financially-sound, profitable, and well-directed institution with experienced and well-motivated staff;
- under CBK operation, the RF is likely to earn a positive real return on investment, thus permitting internal growth of loanable capital, attracting further funding, and serving as a model and force for reform and improvements in other Afghan financial institutions;
- CBK's promoters are already experienced and successful in short-term loans to finance the import of raw materials - the recommended initial focus of the RF - and have extensive business of this type with Afghan private industry;
- with such loans, it is possible to augment loan interest income with foreign exchange and l/c commissions, thus making it easier for both CBK and the RF to earn a positive real return on investment in a banking environment which - in the short term at least - is likely to feature continuing interest-rate ceilings;
- with CBK as operator, RF loans would probably be made quickly, without bureaucracy or insistence on formal security, on the basis of personal knowledge of clients, thus conforming

to the preferences of Afghan private industrialists and - by keeping up rapidity of funds turnover - raising returns on investment;

- Afghan private industrialists will not be much inclined to try to cheat on RF loans operated by CBK, as a private-sector bank backed by Omarzay's financial power and personal standing;

- Omarzay has experience in helping the start-up and partial funding of enterprises of other Afghans. Moreover, CBK's Articles explicitly permit CBK equity investment in manufacturing enterprises. Therefore, a later development of RF operations might be an offshoot CBK-managed venture capital/investment banking fund. Although this is not recommended as an initial component of the RF, it remains a reasonable prospect for the progressive development of financially viable term-funding of Afghan small and medium private industry;

- Omarzay's import-trading experience and wide Soviet connections will be significant additional advantages to the RF if - as now seems likely - the latter's funding is significantly augmented by Soviet raw materials under UNOCA/Operation Salam auspices;

- finally, placing the RF with CBK would be entirely consistent with the wider objectives of AFG/90/003 in strengthening the Afghan private sector and seeking improvements in the financial system serving it; and also with high-level government support for the formation of private-sector banks. Nomination as putative RF operator, by according a degree of international recognition to CBK, may even assist or accelerate its start-up: which in turn, as a powerful indicator of a favourable investment climate, may be expected to attract private foreign investment in most or all important business sectors, industry included.

Against these many and favourable weighty factors, should be recorded the following risks and possible 'cons':

- CBK's operations will be considerably larger than that of the RF, and mostly oriented toward financing trade. There is thus a risk that the RF and its objectives will not be powerfully pursued among CBK's other operations. However, this risk may be alleviated by external review of RF operations, and by Omarzay's own evident interest in the industrial sector;

- RF loans under CBK operation will almost certainly be mostly for imports of industrial raw materials. If progressive development of RF finance of domestic raw material purchases is desired, it will probably have to be urged stage by stage upon CBK by the external review body;

- CBK has yet to be set up. For this reason, the recommendation of CBK as RF operator is made conditional on its effective start-up of operations, conforming substantially to the lines presently envisaged by its promoters, within the next few months;

- relatedly, policy circumstances may change, within that same period, in ways presently unforeseen. The selection of CBK as RF-operator is recommended under presently projected circumstances, i.e. formation of fully private-sector banks, coupled with at-best minor reforms of State-owned financial institutions in the near future. If actual circumstances vary widely from these expectations, this recommendation may have to

be reconsidered. But it is not very fruitful to speculate at this stage how, under different but unforeseen circumstances, the relative attractiveness of the various RF-operator candidates may change;

- a mutually-satisfactory RF-operation contract may not be negotiable with CBK. This is of course a risk with any RF-operator candidate, but in CBK's case the finalisation of negotiations will effectively have to await its formal set-up. Against this, Omarzay and Sarwar have been presented with, and have assented to, AFG/90/003's RF-operation draft proposals;

- finally CBK, for all the prior record and extensive operations of its promoters, would be a new institution, and one almost certainly operating in not exactly the same manner as that to which its principal has previously been accustomed. There are thus risks in predicting the direction and financial efficiency of its operations.

In the FC's judgement, the favourable factors relating to CBK significantly outweigh the risks and 'cons': hence, the conditional recommendation of CBK as RF operator. Notwithstanding this, the sub-section below on Recommendations/Discussion on Financing Scheme Implementation, whilst naturally at points it may appear to assume CBK to be the operator, should rather be construed as indicating guidelines for the RF under any satisfactory operator that presently unforeseen circumstances may throw up.

5. Recommendations/Discussions on Implementation of the Financing Scheme

This sub-section suggests a recommended framework and procedures for operation and regulation of the RF.

Although the suggestions are intended to be as definite and specific as is practicable, it is recognised that there are limits to the precision of pre-specification of details at this stage. In the first place, the conditionally-recommended operator, CBK, has yet to be set up: and it is still possible that it may not be, at least within the required time-frame. Undoubtedly certain details of RF operation - for example, the specifications of loan documentation, from applications through to recording of collections - will vary with the institution which actually does become the operator. Thus it will be sensible and sufficient here to indicate general guidelines to govern such details. Secondly, because in any event the RF operator will be a legally-incorporated and formally-regulated Afghan financial institution, both the requirements of law and the regulations laid down at the time by the financial authorities will have to be observed. It is not known in advance what, and how specific, these will be. Again, an over-precise pre-specification of such things as the terms and conditions of the RF's deposits with the operator, the commission rates to be charged by the operator on various loan-associated transactions, etc., would be inappropriate at this juncture, although some suggestions may be hazarded.

Thirdly, both the contract with the operator, and the initially agreed terms and conditions of RF loans, must of necessity be the subject of final negotiation with the operator. Whoever the operator is, he will bring an interest to the negotiating table. Therefore, on the one hand, some of the suggestions below - for example, on the terms of RF deposits with the operator, or on the length of the operator's initial contract - should be viewed as possible negotiating positions for the UN and its Afghan counterpart institutions; and it is of the nature of negotiating positions that not all of them may remain unmodified when

agreement is finally reached.

However, the matter goes beyond such 'interest-bargaining'. The RF is intended to be of real and sustained benefit to Afghan private industry, to be financially viable, and as far as practicable to assist the general improvement and reform of the Afghan financial system in serving the private sector. Moreover, and connectedly, the operator will be a professional Afghan financial institution with considerable experience of dealing with local private commerce and industry. Therefore, the operator will bring its own long knowledge and expertise of financial and industrial conditions and practices, whence may be expected to stem many helpful suggestions on the details loan procedures, terms, and conditions. If the selected institution did not bring such suggestions, it would not be a prospectively-competent RF operator. Nor, without having technical inputs into the scheme as finally launched, would any worthwhile financial institution regard an RF as one of its own programmes: and, in the FC's experience, if there is anything that most certainly foredooms a financing scheme to failure, it is a feeling on the part of the executing financial institution that it is not fully responsible for and committed to the scheme. Such technical inputs from the operator may be expected both prior to the RF launch, and subsequently during the operation of the scheme: and this is recognised in the recommendations and discussions below.

a. Vesting

The funds to finance the RF - whether from the UNDP General Fund, UNOCA/Operation Salam, or any other sources - would be vested in a body with recognised legal control, under Afghan and international law, over their ultimate disposition. This Vesting Body (VB) might be a private company registered under Afghan law. However, preliminary consultation with the General President of CODAPI, who is a distinguished Afghan lawyer and former Supreme Court judge, has indicated that there is provision under Afghan law for a 'wakh', which corresponds to a 'trust' in the Anglo-Saxon legal traditions; and that a 'wakh' can be the depository and owner of monies entrusted to it.

Further investigations are required by AFG/90/003 staff, but subject to these, the wakh/trust is suggested as the preferred form of the VB. It would probably permit more flexible arrangements than would a company. Moreover, the circumstances - wherein the providers and ultimate controllers of the funds (UN bodies, together with whatever Afghan bodies it is decided to co-opt) are not identical with their intended beneficiaries, viz. Afghan private industrialists - are the classic conditions which the wakh/trust format is designed to address.

However, whatever the legal form of the VB, it - or trustees or other officers delegated by it - should have the clear power to make, regulate, monitor, and (subject to contract terms) rescind or amend successive contracts for the operation and management of the RF, with other bodies especially including private-sector Afghan financial institutions.

The composition of the VB will be finalised in further discussions. Here, it may be suggested that it include representatives of UNIDO, of some other UN body or bodies such as UNDP or UNOCA, of CODAPI, of the Central Bank, and of some Afghan private sector association such as the Association of Afghan Private Manufacturers. If the VB had the wakh/trust format, these representatives would be in effect the RF Trustees. They would probably be appointed for agreed fixed terms by the bodies they represented. There could be provision made in the Articles for the eventual withdrawal of UNIDO and the UN system from trusteeship representation, thus completely Afghanising and/or

privatising the VB in the future, without any fixed schedule being set.

b. Purposes and Lending Criteria

The VB should be the legal owner of funds used to finance an RF, which would have as its objective the supply of financial services on unsubsidised terms to clients who shall be Afghan private industrial enterprises, to contribute to the enterprises' commercially viable industrial development.

The range of such financial services shall in general be limited only by the laws and regulations of Afghanistan and other relevant countries: that is, no prohibitions as to their scope shall be admitted in the Articles of the VB and the RF, except the limits imposed by such laws and regulations, including the limits they lay down on the powers of any body or bodies which the VB shall from time to time contract as RF operator.

Thus, it may be that many sorts of financial instruments and transactions - equity capital investments, longer-term loans, hire purchase arrangements, leases, sale and leaseback arrangements, factoring for clients on commission, etc. - will in the course of time be executed for clients under RF auspices and with the VB's approval. The decision whether or to introduce such other services into the RF's operations shall rest with the VB after review of existing RF operations and consultations with the RF operator. As with all RF operations, once introduced, the execution and management of such additional services shall be the province of the operator.

Notwithstanding such general freedom of the VB to diversify the RF's operations in future, it is recommended that the VB initially limit RF services to the provision of short-term loans for clients' operating needs, together with transactions - operating letters of credit, foreign exchange transactions, etc. - which are the natural concomitants of providing such loans.

Individual selection of clients would be the exclusive province of the RF operator. The only general lending criteria which will be laid down and maintained for the RF from the outset (and should probably appear in the Articles of the VB and RF) are that (a) RF loans and services will be provided only to Afghan private persons (and enterprises controlled by such persons) who are substantively engaged in industrial operations in Afghanistan and intending to apply the loans and services to the furtherance of such operations, and (b) that such operations appear to be commercially viable and capable of repaying/paying for RF loans and services (together with any parallel obligations to other bodies that the enterprises may contract) on normal, unsubsidised terms and conditions. In this context, the term 'industrial' would include manufacturing and related repair activities; most types of agricultural processing (i.e. excluding basic produce-drying etc. normally conducted on farms); and construction.

The VB will have power (limited by its contracts with the RF operator for the duration of such contracts) to elaborate and add to the above general criteria from time to time as it sees fit; and likewise, to rescind or amend such elaborations and additions. The principle is thus the same as with the permitted scope of RF services: maximum long-run flexibility consistent with observing the basic RF purpose, coupled with the power to specify and restrict as need arises.

c. Principles of RF Operation

RF operations will be conducted as business transactions with clients (and with other relevant bodies such as foreign and other banks) on commercial, unsubsidised terms. It shall be a fixed objective that RF operations shall yield a significant net real periodic (normally annual) return on moneys invested to finance such operations. This return will be sufficient to pay: a satisfactory net operating profit to the operator; any necessary VB and/or RF expenses specifically excluded from the operator's account; and a residual net real (after-inflation) return on the funds deposited by the VB to finance RF operations. This residual return, which represents the internal growth of the RF, will be added to the RF-financing deposits, thus year by year increasing the availability of RF funds to provide services to Afghan private industrial enterprises. Besides the evident direct benefits of such increases, the implied financial viability of the RF is designed to (a) attract further funds to the RF from Afghan and international sources, and (b) act as a model and focus for change in other parts of the Afghan financial system.

Consistent with this growth principle, the VB and the bodies it represents would, if satisfied with the RF's operation and if advised by the operator of a viable demand for increased industrial finance, normally endeavour to attract fresh deposits - from either Afghan international bodies, both public and private - thus still further expanding the RF's funding.

d. RF Operation Under Contract

As is implied or stated at various places above, the VB will place the management of RF operations with an operator, under contract. The operator will be a competent Afghan financial institution with experienced and knowledgeable personnel. It will specify which of its senior personnel will manage the various aspects of RF operations; and both the initial candidate personnel, and any replacements which from time to time become necessary, must be approved by the VB.

As one element of the contract, the VB will deposit with the operator (under terms discussed further below) the funds vested in the VB to finance RF operations.

As a corollary, the operator will have full authority under the contract to manage the RF operations, including the full right and responsibility to select the individual RF clients and to approve and disburse RF loans to them, and to execute such other financial transactions servicing these clients, as successive operating contracts may permit; and the full right and responsibility to collect from the clients all principal, interest, fees, commissions, etc. associated with the loans and the associated financial transactions and services.

In so doing, the operator will by contract observe the general lending criteria set by the VB, and maintain such terms and conditions for the RF loans and other transactions/services, as will from time to time be set by the VB (or trustees of officers delegated by the VB) in consultation with the operator. Such terms and conditions might be set for the entire duration of contracts, or for shorter periods to be agreed with the operator; and might be specified either as point values or as ranges of values (e.g. 'b' % dealing commission on foreign exchange transactions, or 'a'-'c' % dealing commissions.)

The terms and conditions would be set in accordance with the Principles of RF Operation at c) above, viz. earning both i. the operator, and ii. the VB's RF-financing funds deposited with it, each a significant net real annual return after expenses. Such return on VB

deposit(s) would probably mostly be interest, payable at an agreed premium above (say) the US\$ LIBOR (London Inter-Bank Offer Rate), but might also include other components, e.g. royalties on certain fees and commissions earned by the operator in association with RF loans.

So long as the VB's deposits exceeded 15% of the operator's total assets (valued at free-market exchange rates prevailing at agreed centres), the VB would have right of appointment of at least one voting Director on the operator's Board of Directors (supposing that Board to be limited to 8 voting members or less); and so long as they exceed 10%, the VB would have the right of appointing a non-voting observer who would have the right of attending all of the operator's Board and Shareholders' General Meetings. Such provisions for the formal representation of large investors in their invested companies' governing bodies are quite common in the financial and industrial world.

The operator's contract would have a normal maximum fixed term of two years. With short-term RF loans probably averaging between 3 and 6 months in term, this would give the operator the scope for turning over the funds several times, and the VB sufficient performance information to judge whether the contract should be renewed. In normal circumstances, renewal would be hoped for and expected by both parties to the contract.

e. Possible Guarantee of the VB's Deposits

The VB or the bodies it represents, would seek to involve one or more of the operators's foreign associate banks acceptable to the VB (in CBK's case, say, Bank of New York, Deutsche Bank, etc.) as 'guarantors' of its deposits with the operator. In return for a periodic guarantee fee, the guarantor(s) would under such an arrangement guarantee the VB's accumulated deposits with the operator, plus possibly a minimal US\$ periodic return on it (say, US\$ LIBOR rate minus an agreed discount). They would not guarantee the RF loans and other transactions with RF clients, the safety of which will be the operator's affair, and any losses on which would not negate or diminish his deposit payment obligations to the VB.

Such deposit guarantees are possible to arrange in the financial world when the guarantor judges the risks to be low enough in return for the fee paid. It is not known in advance whether foreign banks would be willing to give such a guarantee in respect of any given Afghan operator. However, in CBK's case, they might be, particularly if they have had long and extensive dealings with Omarzay, including maintenance of substantial deposits by Omarzay with them.

An alternative might be a guarantee negotiated with the Central Bank. This however would be less satisfactory, since it would not serve to protect the VB's deposits as a net additional resource for Afghan use: the Central Bank would have to rob Peter to pay Paul.

f. Maintenance of the VB's Deposits

The VB's deposits would be maintained in US\$ by the operator in such a manner, and in such of the operator's offices and branches, as would be acceptable to the VB, the operator, and any guarantors. The principle involved would merely be to identify clearly at all times the operator's deposit payment obligations to the VB, and to offer reasonable assurance that such obligations would be met. Tying up the deposit, or making all or any of the RF's transactions into or out of it, is neither needed nor recommended.

The VB's deposits would be made on a fixed-term one-year basis. The

VB would, on giving the agreed notice (probably 1-2 months), have full power to withdraw them from the operator together with all accrued returns, on their respective due dates. Also, notwithstanding the normal maximum 2-year fixed term of the operator's contract, the VB would also have power, by the act of withdrawing its last deposit on a due date prior to the next operating contract expiry date, terminate the operating contract. Conversely, should any due dates for VB deposits fall after the contract expiry date of an operator whose contract is not renewed, this would in no way diminish or vitiate the ex-operator's payment obligations to the VB on those deposits.

g. Review Procedure

The VB would appoint a Review Committee, which would meet at least every 60 days to receive the operator's reports on VB deposits and RF operations. Such reports would at a minimum make clear the state of the VB's deposits and accrued returns thereon; the financial condition of the RF portfolio, including an analysis of disbursements, outstandings, income of various sorts, and any arrears; and would be sufficient to indicate whether or not the objectives of the RF, and the agreed terms to RF clients, are being observed.

The Review Committee would comprise representatives of the bodies forming the VB, and would probably include at least some of those representatives by whom the VB's powers are legally executed (Trustees of a wakf/trust; the Directors of a company; i.e. the members of the VB's governing body). However, the Review Committee's functions would be technical and advisory.

On the one hand, it would offer experience and guidance as necessary to the operator on the broad strategy of RF operations. On the other, it would advise the VB on the performance of the RF and the operator, on whether or not its deposits should be maintained with him, and whether the operator's contract should be renewed and on what terms; and, after appropriate consultation with the operator, recommend as necessary to the VB changes or diversifications in the financial services to be offered to RF clients, and changes in lending criteria or terms and conditions of loans and other financial services. Such advice would be offered to the VB at meetings of its full governing body, which would normally be at 6-month intervals. Given these technical and advisory functions, it is recommended that some at least of the Review Committee's members should be experienced and independent international commercial or investment bankers. Obviously, if there were foreign bank guarantors of the VB's deposits, they should be asked, and would probably wish, to appoint representatives on the Review Committee. Beyond this, it should be possible to engage the fee-paid services of one or two Western or other international bankers normally based in the Gulf or other nearby international financial centres.

It will be easiest for the Review Committee to monitor the state of the VB's deposits, and whether or not the agreed terms of loans and financial services are being observed. This should be evident from the various deposit and client accounts maintained by the operator. The Review Committee will have power to review these accounts at each of its regular meetings, although in the case of client accounts it will be sufficient to review only a small random sample. It will be somewhat less easy to check that the RF clients, even if they are paying promptly on the loans and for the associated transactions, are bona fide industrial customers using the loans for industrial purposes. However, it is not recommended that e.g. invoices indicating payment for the raw materials be routinely produced, nor that special

visits to the clients' premises be made, save in exceptional circumstances. The Afghan private industrial world is a fairly small one; and the knowledge of clients residing in the Afghan members of the Review Committee, from e.g. CODAPI and the Central Bank, should normally be sufficient to prevent systematic use of RF operations for non-industrial use. It will be hardest of all to be assured that RF operations are truly a net addition to financial services to private industry in Afghanistan. Rigorous assurance of this is - if achievable at all - best pursued by economic evaluation and surveys of clients and other private industrialists at relatively long intervals, for example prior to the expiry date of each successive RF operating contract.

However, with experienced Afghan and international banking members on the Review Committee, reasonable ongoing judgements should be possible on all the above matters: and these judgements can be backed up by the VB's power to withdraw its deposits from the operator and refuse to renew his contract. Such a system of review by sensible judgement backed by sanction, is strongly recommended over alternative models wherein every last step of the operator would have to be reported and accounted for to the Review Committee and the VB. Under such alternatives, the operator would not regard the RF as one of its own programmes, and would probably withdraw from it.

The Review Committee should be small, to allow it to work effectively: probably seven members maximum. A quorum would be four members, of which at least one would be a member of the VB's governing body; at least one, a representative of the Afghan bodies represented in the VB, e.g. CODAPI or the Central Bank; and at least two, experienced commercial or investment bankers whether or not representing any foreign bank guarantors.

h. Suggested Initial Guidelines Governing RF Operations

As noted above, the finalisation and detail of such provisions will and should depend partly on who the operator actually is; on his own suggestions, based on his experience and knowledge of Afghan finance and industry; and by applicable banking regulations laid down by the law and the financial authorities. However, the following may be suggested at this stage as guidelines:

- the initial range of RF services would be restricted to short term loans for industrial operating purposes (typically, raw materials and spare parts imports, although the finance of export shipments would also be permissible), and the associated l/c and foreign exchange transactions;
- the distinguishing feature of RF services would be extreme rapidity, ease, and flexibility of transactions. Maximum reliance would be placed on the character and experience of the client, and the Afghan business culture of routinely meeting private debt obligations very faithfully. Recourse would only be had in exceptional cases to formal appraisals of clients' operations, or to the taking of formal collateral or security in advance;
- correspondingly, documentation would be kept as simple as possible. There would be a client identity card drawn up on the first RF application of the client, containing basic information such as the client's name, address, telephone number, industrial licence details, nature of business, etc., which would be updated as necessary; and a client transactions card, on which would be maintained all transactions - appropriately identified as advance deposits by clients for l/c s, RF advances to the client, fees, commissions, repayments of principal, interest, etc. - made on the client's account. Besides constituting the operator's basic RF

working records, these cards would be available on request for the inspection of the VB's Review Committee, which however should ask for them only sparingly and on a sample basis;

- the term of loans would be a maximum of 12 months, with no minimum fixed. Within this range, sub-ranges might be fixed reflecting the operating conditions of particular branches, e.g. food-processing, maximum term of 4 months; furniture manufacture, maximum term of 6 months, etc.;
- loans could be made in any currency (including of course Afs.) freely convertible in the Serai Sharzda or any additional free foreign exchange markets which may develop with the sanction (tacit or otherwise) of the financial authorities, in Kabul or the other principal cities of Afghanistan;
- loans would have a minimum principal value of US\$5,000 (or equivalent at free-market exchange rates), and a maximum of US\$100,000 or equivalent. The maximum might however be differently expressed, e.g. that no loan should tie up more than 33% of the total RF funds for longer than 3 months;
- there could also be initial provisions that at least 30% of loan turnover value be in loans of less than US\$50,000 or equivalent; and that at least 50% of loan turnover value be in loans with terms of 4 months or less. This would provide additional assurance - if the VB felt that it was initially needed - that funds would be turned over rapidly and not tied up in a few large loans;
- for opening letters of credit, the maximum advance deposit proportion required from the client could be 40% (provided this is permitted by the financial authorities), with no fixed minimum;
- interest, fee, and commission rates would require further discussion with the operator, and with the financial authorities in order to meet any regulations they may impose, before initial values or ranges could be set. The principle however is clear: the total income from RF operations should pay both the operator and the VB - in their different ways, and after their respective expenses - a significant positive real (inflation-adjusted) periodic income or return. In the case of loans involving letters of credit on an average 4-month turnover cycle, this could probably be achieved by 1 1/2 - 2% commissions on foreign exchange transactions, 1-2% commissions on the value of letters of credit opened; and 8% - 12% per annum interest on the bridging loans financing the import shipments over and above the client's advance deposit.
- the return on the VB's deposits with the operator might initially set be as interest at an annual rate 3% above the US\$ LIBOR (London Inter-Bank Offer Rate); plus a 10% royalty on fees on commissions charged by the operator on the letters of credit and foreign exchange transactions for the accounts RF clients.

6. Summary

The preceding sub-sections have reported findings and recommendations relating to the investigation of the feasibility of establishing a UN-funded revolving finance fund (RF) in support of Afghan private industry; and, given that establishment was found to be feasible, the proposal of a detailed plan for the fund and procedures for its operation. These activities formed the main focus of the entire consultancy, occupying 75% or more of time spent.

The feasibility survey was based on visits and other contacts with (a) numerous Afghan private industrial enterprises (the 'demand side' of industrial finance); (b) several formal and informal Afghan financial institutions and financiers (the supply side), and (c) high financial officials (the policy side). The survey indicates that the present financial system, although 'functioning', serves the Afghan private industrial sector rather imperfectly in a number of respects. Inter alia, it is - particularly in its formal, official, segment - a rigid system; it is geared primarily to the commercial sector, including import-reexport trade, with industry an 'also-ran'. Specifically, several sorts of industrial financing need are imperfectly met, for example working capital, longer-term loans, and external equity funding. Of these financing needs, one of the most pressing, and one readily assistable by UN funding intervention, is short-term financing primarily for the import of raw materials and other operating supplies. Such financing can, if efficiently operated, become the base of a financially viable and growing revolving fund. In the course of time other, more difficult, types of industrial financing could be progressively added to the fund's operation without impairing its financial viability.

With the full approval of the CTA, considerable time was devoted by the FC to capitalising on an opportunity to augment the UNDP funding of the RF with Soviet aid contributions, in the form of industrial raw materials, under the auspices of UNOCA/Operation Salam. This work further confirmed the need of Afghan private industry for short-term raw material finance, despite the several channels, both formal and informal, already in use for supplying such finance. The Soviet contributions promise to be significant in size, thus adding substantially to the funds available for financing an RF. A prodoc drawn up by the FC in the form of an annex to the AFG/90/003 main project document, has already received ready approval at the crucial UNOCA inter-agency committee level in Kabul.

The review of financial institutions - excluding merchants acting as trade creditors, but including the State-owned commercial banks, large-scale informal financiers, and Industrial Development Bank of Afghanistan - as potential revolving fund (RF) operators, led to the recommendation that a large, well-established, but currently still 'informal' finance company be posited as the RF operator. Of all the candidates, this potential operator best meets the selection criteria, viz. (a) providing real and immediate benefit to Afghan private industry (b) making the RF financially viable and capable of internal growth, and (c) making the RF a focus and force for improvements in the general Afghan financial system in its services to the private sector.

The recommendation is made under presently projected circumstances - which of course might not materialise as foreseen - and is conditional upon the company's principal and his associates being able, within a reasonable period (probably 6 months to a maximum of one year) to establish itself as a formally registered and regulated private bank.

Additionally, recommendations have been made regarding the purposes, lending criteria, organisation, regulations, procedures and lending terms under which the proposed RF would be operated. It is recognised that, in the present state of affairs, these recommendations cannot be regarded as the final word on the matter. The eventual identity, the views, and the experience of the operator will need to be accommodated, as will other matters largely outside the control of UNIDO and the UN system, such as government financial regulations. However, the recommendations are put forward as a reasonable set of guidelines for operating a financially-viable RF under most foreseeable

circumstances.

C. OTHER PRINCIPAL OUTPUTS OF THE CONSULTANCY

1. Assessment of CODAPI'S Evaluation/Technical Assistance Roles

At the request of the CTA and CODAPI, the FC among other activities during April conducted an assessment of CODAPI's evaluation and technical assistance practices and roles. Working with CODAPI evaluation and technical assistance staff, and with the step-by-step project files from both departments, he examined the role of these departments within the wider context of government policy for the private industrial sector. This led to an assessment of current procedures, followed by suggestions for developing and strengthening CODAPI's industrial promotion role.

The main function of the current evaluation/technical assistance procedure is to control the development of private industry in the national interest. Particularly in the present difficult economic and supply situation, government may have a valid interest in emphasising certain types of industry with priority over others; and in assuring, as best it may, that the emphasised industries have good access to various vital inputs - land, energy, raw materials - the supplies of which are controlled or influenced by various arms of government.

CODAPI presently has a coordinating and cooperative role within the overall government structure, setting the field for approval of industrial projects by a committee of the Council of Ministers; and subsequently acting as each approved project's conduit for access to inputs and other needs from government bodies.

In practice, in changed conditions, the procedure is less helpful than it might be, to either government or industry. With a new atmosphere for private investment, the system is overloaded with projects to be evaluated and assisted. 123 projects were approved in the year 1369, and CODAPI expects to evaluate 400 projects for approval in 1370. Against this, professional staff resources are very limited: only 4 or 5 CODAPI professionals are actively engaged in preparing project evaluation documents. One of them said that he alone had prepared 45 such documents in 1369.

In such circumstances, evaluations must necessarily be hastily prepared. The evaluation document format lacks interpretative text, and comprises the bare presentation of figures for which the analyst must rely heavily on the industrial promoter of the project. CODAPI staff report little consistency of coefficients between projects in any one industry.

Further up, at the approval stages, the procedure also places over-heavy demands on high officials, in both CODAPI and in other arms of Government, who necessarily have many other responsibilities. Besides being reviewed and vetted, sometimes several times, by the Evaluation President and the General President of CODAPI, each project evaluation document must reviewed and approved at least once, and (for medium-scale projects with machinery investment of more than Afs. 4 million) probably twice, by a commission of Presidents from CODAPI and several sectoral Ministries. This stage achieved, each project evaluation must be reviewed and approved by a committee of Ministers chaired by the Deputy Prime Minister, and including about half of the entire Council of Ministers. It is therefore no surprise that (a) projects are reviewed by these senior bodies not individually, but in increasingly large batches (b) almost all of them are approved, and (c) the few rejections are typically made on broad grounds, such as perceived adequate capacity already installed or approved in an industry.

Furthermore, approval even by the committee of the Council of Ministers,

is under current procedure only a stage in a project's meeting of government requirements. Despite the final evaluation document having been officially signed by about half the entire Council of Ministers and signed copies of it distributed to the several relevant Ministries, the project has yet to secure an official licence. It must apply for this - and for many other government requirements; concessions already noted in the evaluation document; and services or inputs controlled by arms of Government - through the several divisions of CODAPI's Technical Assistance Department.

Although these, like the Evaluation Department, generally seem to forward these applications promptly on request, the process typically takes months or often years, and seems to involve many unnecessary steps and duplications. Two examples will be sufficient to illustrate this. According to CODAPI staff, a project's request for cement from the publicly-owned cement factory must be made first to CODAPI Procurement division; and if approved, must then be routed through, and approved by, the Ministry of Planning, the Ministry of Mines and Industry, and finally the management of the cement factory itself. Again, according to the senior management of the Industrial Development Bank of Afghanistan (IDBA), IDBA places no reliance on the figures in the approved final evaluation document forwarded by CODAPI. IDBA does its own evaluation, which typically results in substantially different figures.

To recapitulate: the current procedure serves neither government nor industry well. It is at best an extremely cumbersome way of executing industrial policy and control; and hinders, rather than encourages, project promoters in pursuit of their approved industrial objectives. Clearly this is a far from ideal situation: what then may be done about it?

It is suggested that the national objective of encouraging and guiding private industry might be more effectively pursued by (a) shifting the main focus of evaluation from the project level to that of industrial branches or sub-sectors, i.e. to the level of entire individual industries, and (b) by shifting post-approval CODAPI assistance activity onto a basis of fees-paid-for-services-rendered.

These principles might be given organisational application in a number of ways, the choice of which CODAPI could itself best determine in consultation with sister-arms of government. One such way, might be as follows:

- industrial branches could be categorised either as 'approved' or as 'under ongoing review'. Projects in approved branches would not be subject to evaluation and approval by CODAPI or other governmental bodies. Subject only to security clearance of their promoters, they would need no industrial licence, and would automatically qualify for such duty and other concessions as government had determined to be appropriate for their branch;

- branches could be approved using the same structure - CODAPI, sectoral Presidents, committee of Council of Ministers - as is now used for projects. The evaluations would be deeper and based on economic as well as financial analysis, and of course there would be far fewer than at present where every project must be evaluated. It might be hoped that most industrial branches would fairly quickly become approved, leaving only a minority 'under ongoing review';

- in branches under ongoing review, each project would still be subject to individual evaluation and approval - again, using the same structure as at present. Because of their reduced numbers, these evaluations could also be deeper and more economic than at

present (and might often progressively lead to the approval of more entire branches). Projects once approved by the committee of the Council of Ministers would, like projects in approved branches, need no industrial licence and would need only security clearance to qualify for any concessions included in their Council of Ministers approval;

- upon security clearance, projects in whatever branch could apply directly on their own account for the services and inputs supplied by the various arms of government and other public agencies (IDBA, the Ministry of Water and Power, the Customs House Department of the Ministry of Finance, etc). Projects could, if they desire, involve the Technical Assistance Department of CODAPI in their applications. This service would be a voluntary arrangement: and could be developed on a fee-paying basis, since CODAPI has already built up an expertise in the application process to the several arms and agencies of government.

Such a revised framework (the setting-up of which could be supported by economic and training technical assistance from the UNIDO/CODAPI project), would encourage the setting-up of private industrial projects by making the process faster and easier, whilst still retaining a CODAPI/government overall regulatory control of the industrial sectors. Within CODAPI, it might then become attractive to re-arrange the departmental structure to form several sectoral departments - rather than, as at present, on the basis of separate evaluation and technical assistance functions - with sectoral officers using the expertise built up in deeper branch and project evaluations, as an improved base on which to offer voluntary fee-paid technical assistance to industrial projects, both in their setting-up and subsequent stages.

Memoranda embodying the above assessments and suggestions were drawn up by the FC at the beginning of May. These were received, reviewed, and assented to, by the CTA. It had been intended to submit the final draft memorandum to the General President of CODAPI for his review. However, the General President was then out of the country, in successive missions to the USSR, for much of the period until mid-June: consequently he has not yet reviewed the assessments and suggestions. However in the meantime, the AFG/90/003 industrial legislation consultant Mr. J. Westberg independently put forward in May broadly similar suggestions, from the standpoint of re-drafting the Investment Law: and his suggestions have received favourable reception from the Afghan high officials, the General President of CODAPI prominent among them, charged with reviewing Mr. Westberg's work. Thus there seems a very good chance that the FC's assessment and suggestions will likewise receive a favourable reception. Moreover, the suggested switch from individual project evaluations to deeper evaluations of industrial branches, ties in well with the financial consultancy's work on industrial profiles, dealt with in the final sub-section below.

II. Strengthening Evaluation Capacity: Industrial Profiles

As part of his briefing at UNIDO HQ, the FC met a representative of the Industrial Feasibility Studies Branch, to discuss the furtherance of project evaluation capacity and industrial profiles (feasibility or pre-feasibility studies of model projects in selected industrial branches) among the institutions assisting the private industrial sector in Afghanistan. It was suggested that the FC review the situation in this respect at CODAPI, IDBA, and other relevant institutions: and report accordingly on the need for, and outline design of, a programmed AFG/90/003 technical assistance input in this field.

In the course of the work described in the preceding sub-section, it

became evident that CODAPI itself possessed no worthwhile industrial profiles (IP) , and that its evaluation procedures and capacity were in need of substantive revision and improvement. In late April, the FC next discussed IP with IDBA, to which institution CODAPI evaluation staff stated they sometimes repaired for industrial project data. The discussion was conducted with Ir. Yarmand, the Vice-President and a.i. Officer-in-Charge of IDBA. He revealed that IDBA had no recent IP. Such IP as it possessed, were all 15-20 years old dating back to the era of an Asian Development Bank shareholding in IDBA. IDBA would like to develop some new IP, to act as a guide to private industrialists, giving them some scale options in each industry covered. In this endeavour, IDBA would welcome UNIDO help in respect of foreign information and staff on-the-job training.

Industrial branches suggested by Ir. Yarmand were:

- Ball-point Pens
- Pencils
- Toilet and Washing Soap, Detergent
- Chemicals for Shampoo, etc.
- Paint, exterior and interior
- Bicycles
- Bicycle Tyres
- Pressure Cookers
- Packaging for Raisins, Dried Fruit
- Dry Cell Batteries, various sizes
- Automotive Batteries
- Shoe Polish
- Upholstery Foam

Ir. Yarmand also noted that the Ministry of Mines and Industries possessed some IPs. After preliminary enquiries, the FC therefore met in early June with Mr. Manderkhail, head of the Research Institute of this Ministry, and with Mr. Sakhi, now heading up another division but until recently handling Mr. Manderkhail's responsibilities.

The first focus of discussion was the existing IP and similar documents held, excluding those dated earlier than 1979. Apart from a few rehabilitation reports on specific existing projects, the Ministry holds only five IP-like documents, three of them dating from 1979:

- a 1979 UNIDO feasibility study on caustic soda manufacture, with a 1979 UNIDO advisory proposal on the same topic;
- a 1979 UNIDO pre-feasibility study of salt iodisation, with a 1979 UNIDO proposal on the same topic;
- a 1979 detailed tender, under Japanese government auspices, for a match-manufacturing plant;
- a 1983 UNIDO technical report on the establishment of a demonstration foundry, and
- a 1985 UNIDO feasibility study of a mini-steel mill to be based on scrap, with an associated 1983 UNIDO feasibility study on the smelting of metals.

No subsequent action has been taken on these profiles (except the mini steel-mill, in which Mr. A. B. Omarzay is interested), because they were originally intended for public investment, and security conditions have prevented any implementation.

More generally, although the Ministry of Mines and Industry has a private industry section, Messrs. Manderkhail and Sakhi indicated that the main Ministry contact for private-sector IPs would be the Centre for Industrial Extension Services at the Ministry of Food and Light Industries. Notwithstanding this, they too expressed interest in the possibility of UNIDO TA in developing IPs.

In mid-June, the FC visited the Centre for Industrial Extension Services (CIES), and met its President, Ir. Sakhi Karimi, and a staff Member, Mr. G. Sanahi. Ir. Karimi stated that his Ministry and CIES had a dearth of up-to-date IPs: further, that CIES had several times requested TA from the UN since 1986, but very little had been provided. CIES serves both private and public industrial enterprises, and is particularly interested in food-processing and all textile industries. Ir. Karimi noted that only the following IP-like documents, dating not earlier than 1979, were in CIES/his Ministry's possession:

- UNIDO Feasibility Study on starch manufacture (1979);
- UNIDO Pre-Feasibility Study on white paper manufacture (1979);
- UN Consultant's Report on improvement of tanning and wool washing/spinning (1988), and
- CIES locally-gathered material on the manufacture of medical cotton goods (bandages, etc.) (current).

Ir. Karimi expressed keen interest in UNIDO TA in producing up-to-date IPS, particularly in the areas of foreign information and on-the-job training.

Based on these discussions, together with further discussions with the CTA in Kabul, and with the AFG/90/003 backstopping officer and Mr. Davidsen of the Industrial Feasibility Studies Branch during de-briefing at UNIDO HQ, the FC recommends that a short-term TA input be provided by UNIDO within the framework of AFG/90/003. Based on the project schedule as explained by the CTA, it is suggested that this input be made primarily in the first quarter of 1992, with some preparatory activities in the last quarter of 1991.

The underlying principle of the proposed input is to strengthen evaluation and IP-updating capacity at all the Afghan institutions reviewed in this sub-section (including CODAPI, thus tying in with the suggestions made in the preceding sub-section on revising CODAPI's evaluation and technical assistance roles). The strengthening would be achieved through on the job training supplemented by periodic inputs of foreign background information not readily available in Afghanistan. A short outline of the proposed TA input is appended as Annex 4 to this Report.

ANNEX 1

Industrial Enterprise Visit Reports, April 1991

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 2.4.91 Counterpart: Ir. Nasirullah

General Identificatory Information

- a. Name of Enterprise: Millie Plastic
- b. Address/Location: Pulicharkhi
- c. Name of President/Name and/or Title of Interviewees
Qasim Ali (QA), Accounting Director
- d. Date of Set-up: 1970?
- e. Legal Status: Private Company
- f. Total Investment Not covered
- g. Main Activities/Product Lines
Moulded plastic sandals, boots, shoes.

2. Other Enterprises of Principals(if any):

A Mill weaving cotton cloth. No others admitted.

3. Introductory Comment (if any)

The owner was away in Europe, shopping for machines to make plastic bags. He is a very rich man, coming from a traditional trading community (Hauzara?).

4. Factory and Production, Labour, etc.

Factory site is large, with much room for expansion within area enclosed by walls. It stretches back from main PIC road, adjoining Kabul Plastics factory. Production and storage is in a relatively small floor space at the far end of the site. Production centres on 4 largeish German injection moulding machines, at least one of which looked dirty and unused. Most storage, of r/m and f/goods, is in reefer containers, either in or out of doors. The staff includes mechanics as well as operators: both seemed very 'blue-collar'. There is a 170 KVA generator, which was 'down' and being repaired by company's mechanics at the time of visit, so production halted.

5. Marketing

Production is in anticipation of demand. There is one sales depot, in Kabul. Sales are to traders who then re-sell either at wholesale or retail, in Kabul and provinces. QA doesn't think the traders export. Sales are paid for 100% cash at factory, 2 days in advance of delivery to customer at depot. No credit given. This is possible because product quality is high. Samples shown were of good quality.

6. Raw Material and Other Input Supply

Electricity from mains is too unreliable for production. Primary reliance is on 170 KVA gen-set noted above.
Main materials are plastics granules from Germany, Holland, etc.

Company keeps 3 months' supply. Comes by rail to Soviet border-port then by truck to Kabul. Air freight too expensive. The company (and/or Pashtani Tejaraty Bank) insure the shipments, but no losses yet: the Muj don't want PVC, instead cloth, food, radios, etc.

To finance imports, company takes Afs. to the free-market money changers (shopping around, no particular man) and buys 100% of foreign currency required. This is then deposited with e.g. P/T Bank, which opens an L/C paying supplier 25% on shipment, remainder on delivery to Kabul (or border port?). Bank guarantees its L/C.

Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Company is almost entirely self-financed. Sometimes they borrow some foreign currency from money-changers if Afs. on hand not sufficient to cover an import shipment. However this is for relatively small amounts and for (say) two to three weeks. They have also borrowed Afs. for working capital from IDBA, but this too is very secondary.

al. Characteristics of Funds Sources

Money-changers. Short-term w/c finance. Company bears exchange-rate risk, plus 10% per month interest on top.

IDBA. One-year w/c finance in Afs. Interest rate 10% per annum. Service rated satisfactory, could think of nothing IDBA could do that they weren't doing already.

b. Principals' Other Enterprises as Potential Funds Sources

No comment.

c. Problems/Opportunities Possibly Needing External Finance

They have major expansions in mind, but it seems these will be self-financed.

d. Bankability of Enterprise for Potential Financing.

Probably a good credit risk, but unlikely to need extra external finance.

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Dates: 2.4.91 Counterpart: Ir. Nasirullah
3.4.91

General Identificatory Information

- a. Name of Enterprise: Farzana Tailoring
- b. Address/Location: Barikot Industrial Serai, Kabul City
Tel. 40069, Ext. 9
- c. Name of President/Name and/or Title of Interviewees
Pres. Abdul Habib. Chief Cutter/Accounting Director
- d. Date of Set-up: 1977
- e. Legal Status: Proprietorship
- f. Total Investment:
- g. Total Employed: 21. Mgt: 2. Foremen: 2. Skilled/Semiskilled: 17.
- h. Main Activities/Product Lines

Modern clothing: mens', womens', boys', girls'.

2. Other Enterprises of Principals(if any):

None.

3. Introductory Comment (if any)

Mr. Habib, the Pres., arrived only in the closing stages on 2.4.91. Almost the entire interview that day was with the Chief Cutter, and (from about half-way), the Accounting Director. However, on 3.4.91, the entire interview was with Mr. Habib.

The co. started pre-Revolution. Habib & wife brought embroidered samples to a Chicken Street shopkeeper for the tourist market. The shopkeeper gave Habib some orders and a Af. 1500 loan to get started in his home. Now H. wants to get back into the embroidered clothing business, on export side.

4. Factory and Production, Labour, etc.

Co. occupies two production rooms and one small office room in the 2nd. floor of the Industrial serai. One room has women, the other, men. In both, sewing goes on, but the cutting table is in the mens' room. The machines are Butterfly single-line stitch, with electric motors. If electricity fails, they can be pedal-driven. However, the light would probably not be very good. Until two years ago, had only one production room in the serai, thenceforward two. Chief Cutter would like a cutting machine, as of now he cuts by hand laboriously. He says company would like to buy double-line stitch machines newly on market in Kabul. Mr. Habib says he will buy 3-line stitching machines he will import from Japan. He was recently in India, could not find such machines there.

Products seen were rather gaudy and at most medium quality. Kay Danitian confirms this: quality rather low. Habib is appreciative of

her technical assistance in improved working techniques. The embroidered samples (3.4.91) were well-stitched, but crumpled.

Some student labour comes into work after school. This is possibly shift-work because most machines were seen in use.

5. Marketing

Market is said to be 100% export, to Moscow buyers via a crafts 'emporium' showroom clearing centre in Kabul. Products claimed too expensive for local market. Buyers make their own price/quantity bargains with the company, but pays it through the emporium, which then pays the company. Prices are denominated in 'clearing \$', currently about \$1 = Afs. 70: the rate is changed only once or twice a year, Clearing \$ prices are therefore set far above what would be charged in US\$. Still, it is difficult to make a profit, and now they barely break-even, or lose. Mr. Habib says the clearing \$ system is a big headache, and he would like to export embroidered clothes to Western countries.

6. Raw Material and Other Input Supply

Most cloth used is imported, either smuggled from Pakistan or air-freighted from Europe or Far East. Company doesn't import itself, or buy foreign currency. Not enough volume. It buys in Afs. from Kabul cloth-traders/importers. Prices are high to cover importers' Af. devaluation and other risks. The cloth traders will give company credit if requested.

Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

No external sources mentioned except cloth-traders, and a small commercial bank loan for other export business. He presently has 50,000 metres (Afs. 40,000,000) of cloth on maximum 6 months' credit from a total of 10 cloth-traders.

al. Characteristics of Funds Sources

Cloth-traders will give up to 4 to 5 months' credit, at 25% premium price, i.e. ca, 5% per month for devaluation risk and implicit interest, which is relatively low. Perhaps the traders charge a low premium to keep the trade going and get business. In any case, Habib claims he could import the cloth (given finance) 45% cheaper than the traders' cash price. Maybe he could, but he would then be taking 3 months' interest and devaluation risk burden from the traders.

Mr. Habib does not rate banks highly as a source. He is particularly critical of IDBA. If one applied now, IDBA's speediest delivery would be in one year's time. The commercial banks require his machines as security for a working capital loan, which he objects to. He received a Afs. 200,000 commercial bank loan in 1989 for export of carpets and medicinal herbs.

b. Principals' Other Enterprises as Potential Funds Sources

Not applicable.

c. Problems/Opportunities Possibly Needing External Finance

Possibly, equipment finance (would need careful assessment of needs versus market, and possibly parallel marketing assistance).

Cloth import finance improbable.

d. Bankability of Enterprise for Potential Financing.

Presently the company has a high business risk, no assured profitability.

Also Habib seems to have a rather unrealistic attitude to 'formal' finance, to want loans without security and far in excess of his own investment. If he cannot get these, his choice is to build up gradually with his own money. Perhaps these attitudes might change with further dialogue and a quick-delivery finance-scheme, but the present prognosis is not too favourable,

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 3.4.91 Counterpart: Ir. Nasirullah

General Identificatory Information

- a. Name of Enterprise: Samimi Woodworking
- b. Address/Location: Kabul
- c. Name of President/Name and/or Title of Interviewees
Samimi
- d. Date of Set-up
1977
- e. Legal Status: Private Company
- f. Total Investment: Afs. 40,000,000
- g. Numbers Employed: 37; 2 Managerial/Professional; 28 Skilled; 7 Unskilled
- g. Main Activities/Product Lines
High-quality wooden furniture.

2. Other Enterprises of Principals(if any):

None.

3. Introductory Comment (if any)

Mr. Samimi is the sole owner. We met him in the enterprise's furniture shop in town, having first paid a fleeting visit to his factory

4. Factory and Production, Labour, etc.

Factory seen only from its entrance. It is a serai of low traditional buildings surrounding a largely unpaved courtyard. Samimi says it uses the mains electricity which he finds basically satisfactory, and has Indian powered woodworking equipment (lathes, planes, saws, drills, etc.) for which he paid cash in India. Some of it could be replaced with advantage, because old. He stores local wood 3 months to condition it. His labour force is essentially skilled carpenters, upholsterers. etc.

5. Marketing

Although a small amount of contract business is done for furniture for schools etc., the essential marketing is done through the showroom/shop. This faces on a main street in Kabul, and is fair-sized if not spacious. It is full of sofa sets, beds, wardrobes, etc. which are high-quality old-fashioned 'heavy' items. Prices quoted range from Afs. 450,000 to Afs. 1,200,000 per set or item. They have increased 6-fold since 1987 (examples given). Customers are very high government officials, nouveaux riches such as smugglers, and embassies. Turnover is Afs. 60,000,000 per year, in 1987 it was Afs. 45,000,000, so real volume has declined sharply (nevertheless, Mr. Samimi, a man in his 50s/60s looks contented and prosperous). About 50% of the main high-quality business is done to order against 25% advance, balance

paid on delivery; the other 50% is done on a 100% cash sale basis.

6. Raw Material and Other Input Supply

Mains electricity basically OK, and enterprise 'cannot afford' a generator.

Main supplies are local wood, imported wood, imported cloth and foam, and fittings. These last he used to import, but now buys from Kabul merchants. Local wood supply (e.g. walnut) is not a problem. He orders from supply contractors who deliver in 2-3 months, against a 25% advance. For imported cloth (e.g. from the Gulf) he uses air-freight, for bulkier items like wood from Italy, USSR, overland freight. Depending on his relationship with the supplier he pays by L/C - showed one opened by Pashtani Terajaty Bank to Italy for US\$ 8,350 - or by bank transfer. He almost always gets the foreign currency in the bazaar.

Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Company owns the factory, equipment, and stock. The showroom/shop is rented from the Government.

The company is basically self-financed. It is all from Mr. Samimi's own capital and retained earnings, no relatives. (Possibly Samimi worked in the Gulf, and invested savings in the start-up: he certainly has trusted suppliers there.)

Several years back, there was one small equipment loan from IDBA, which Samimi said was a headache, so much bureaucracy and delay, plus 'squeeze' by officials. He obviously does not want to repeat that, despite higher interest rates, would rather deal with the commercial banks, one of whom last year gave him a working capital loan, but he isn't very enthusiastic even about them.

His dealings in the informal market were not too clear, apart from purchase of foreign currency for Afs., and that any borrowings there are only short-term (1 to 5 months) to finance supplies. 25% interest was mentioned, and it seemed that this was seen as a fixed premium, regardless of term or currency borrowed. Possibly only Afs. are borrowed, but no clear answer was obtained. There are also one or two large merchants, not suppliers, who will advance short-term money (US\$ 30,000) 'free' because of friendship. They will get furniture on advantageous terms.

The real attraction of all these informal sources is speed of delivery (one or two days) without bureaucracy and paperwork.

a1. Characteristics of Funds Sources

See above.

b. Principals' Other Enterprises as Potential Funds Sources

Not applicable.

c. Problems/Opportunities Possibly Needing External Finance

The company might be a client for equipment loans, but not through IDBA as presently perceived; or for a short-term w/c facility. If it could be set up to deliver fast and without headaches.

Outside furniture proper, Samimi wants to set up a foam factory, and would like financial help for that.

d. Bankability of Enterprise for Potential Financing.

Company, though probably financially sound despite declining markets, can't be considered a prime candidate, except perhaps for the foam factory.

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 06.04.91 Counterpart: Ir. Nasirullah

General Identificatory Information

- a. Name of Enterprise: Kabul Plastics
- b. Address/Location: Pul-i-Charkhi
- c. Name of President/Name and/or Title of Interviewees
Pres. M H Azizi, + V.P. (son)
- d. Date of Set-up: 1973
- e. Legal Status: Private Company
- f. Total Investment: Afs. 64 million.
- g. Labour Force: 80: 2 Managers, 2 Foremen, 1 Clerk, 36 Skilled, 39 Semi/unskilled.
- g. Main Activities/Product Lines
Plastic Footwear, + plastic bags for wrapping the footwear.
They have factories on same site for plastic pipes, dishes; and knitwear, but these are not currently operating.

2. Other Enterprises of Principals(if any):
See above. Claim no trading enterprises.

3. Introductory Comment (if any)
None.

4. Factory and Production, Labour, etc.

Site is by PIC road and is very large. The footwear operation occupies perhaps 6000 ft² of high building, but could be accommodated in much less. They have 3 much-used Italian injection-moulding machines in operation, plus 3 older UK machines rusting and non-operating. One of the Italian machines was down for repair to moulds on-site. Much 'flash' is produced, which is cut-off manually, cut up, and recycled. They are operating 3 shifts and 24 hours a day. The plastic bag operation is small, perhaps 500 ft², and uses upright machines. They have 'just enough' skilled labour, but army conscription makes life difficult.

5. Marketing

Turnover Afs. 100 million per year. No exports. Prices doubled since 1988/9, because plastics rise with the US\$ against the Af. Demand exceeds supply, could sell the output of 5 machines rather than present three.

Used to have agencies in the main provincial cities, now just one in Kabul. Production to company market assessment, not to order. Traders buy 100% cash at agency, sell mostly to rural areas and smaller towns. Product specimens low quality and soft. Each pair packed in a plain transparent plastic bag by hand, then by hand gunny sacks for transport.

6. Raw Material and Other Input Supply

Plastics from Singapore, 5 months' transit via ocean and the rail to Soviet border. L/C 25% on acceptance of pro-forma invoice, rest on receipt in Kabul. Buy foreign exchange in bazaar, deposit 100% (?) of L/C amount in bank (Millie Bank).

Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

All equity. Originally electronic/clothing importers. Turned to footwear manufacture, then progressively diversified into other lines.

al. Characteristics of Funds Sources

Banks will only give small loans (Afs. 2-20 million). Not big enough to be useful, e.g. a new Italian i/j machine would cost Afs. 600 million.

Company could get v. short-term loans from the informal finance sources, but have not had to.

b. Principals' Other Enterprises as Potential Funds Sources
No current capability.

c. Problems/Opportunities Possibly Needing External Finance
None for the finance scheme.

d. Bankability of Enterprise for Potential Financing.
Probably very 'bankable', but do not want external finance.

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 07.04.91 Counterpart: Ms. Lailoma

1. General Identificatory Information

- a. Name of Enterprise: Rahimi Textile
- b. Address/Location: Industrial Park
- c. Name of President/Name and/or Title of Interviewees
- d. Date of Set-up: 1965
- e. Legal Status: Private Company (family-owned)
- f. Total Investment
- g. Labour Force Total:60 Mgt: 4 Clerical: 4 Supervisory:4
Skilled: 20 Un/Semi-Skilled: 28
- h. Main Activities/Product Lines
Textile weaving, dyeing, finishing (most important but in abeyance now),
Confectionery(small but operating),

2. Other Enterprises of Principals(if any):

None, other than above.

3. Introductory Comment (if any)

Confectionery introduced in 1988/9 as a makeshift when textiles stopped.

4. Factory and Production, Labour, etc.

Labour force cited is for one-shift operation of the textile operation. About 20, including mgt. now work on confectionery, which is in a small area (<1000 ft²) and uses mostly hand techniques plus open boiling vats, etc.
Textile operation has 84 power looms, plus two dyeing machines (open), + finishing line (calendering, etc.). This eqpt. all from Pakistan. Also have own-made boiler and plastic-sheet packaging machine. All was a bit rusty, but one loom was being powered while we were in the shed. Floor space of textile production about 12,000 ft². Dyed cloth is partly sun-dried: in winter, difficult but can manage.
Labour: have or can hire a core of skilled labour in textiles or confectionery. Then can train up a labour force around this core. Reckons could start up and reach one-shift production within weeks of receipt of material.

5. Marketing

Confectionery is sold from their own stall/shop in the bazaar in Kabul.
Cloth would be produced to company's market assessment, sold for cash via their Kabul agency to traders who then sell onwards, in Kabul,

provinces, rural areas, and even in Pakistan. Cloth bolt seen was medium quality, with printed label (from Pakistan) inside plastic-sheet wrapping. Price noted was 450 Afs/metre but that may be 1989 price.

6. Raw Material and Other Input Supply

Confectionery uses partly locally bought materials, but USSR materials (sugar etc) are cheaper. Recently got licence to import from USSR, and good profit can now be made.

Textile operation used Chinese yarn imported via Peshawar. In 1988 or 1989, road from Peshawar closed by war, blocking in Peshwar 2 years' supply of yarn for them, part fully-paid for, part partly-paid for. Now they are arranging to have 25% of this shipped from Peshawar by land, sea, and rail to USSR border-port. The method of payment for imported yarn, labels, etc. was change Afs. for US\$ in the bazaar, deposit US\$ at Pashtani T. Bank, open an LC 30% on acceptance of pro-forma invoice, 70% on delivery in Kabul. There is a 10% import duty on yarn, etc. but equipment and machinery duty is zero.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Mostly own money. No informal-source loans, or commercial bank loans. 5 years ago, had a Afs. 28 million equipment+working capital loan from IDBA for re-equipment and expansion. 12% interest rate, 2 years to pay it back, 5 months from application to disbursement. So far have only repaid Afs. 4 million of principal.

al. Characteristics of Funds Sources

See above for IDBA. Money was lent in Afs. which had to be converted to \$ in bazaar.

b. Principals' Other Enterprises as Potential Funds Sources

Confectionery may now generate a significant cashflow.

c. Problems/Opportunities Possibly Needing External Finance

Expansion/upgrading of confectionery, but Govt. thinks capacity in Kabul is already sufficient, so no more approvals.

d. Bankability of Enterprise for Potential Financing.

Repayment record not good to IDBA. Not a prime credit risk.

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 07.04.91 Counterpart: Ms. Lailoma

1. General Identificatory Information

- a. Name of Enterprise: Zahir Nazir Raisin Processing
- b. Address/Location: Industrial Park, Kabul
- c. Name of President/Name and/or Title of Interviewees
Mr.A. Qazi Cashier at Factory
- d. Date of Set-up: 1985
- e. Legal Status: Private Company
- f. Total Investment: Afs. 105 millions
- g. Labour Force. Total:130 Mgt: Clerical: Supervisory:
Skilled:60 Un/Semi-Skilled: 70
- h. Main Activities/Product Lines
Raisins, primarily for export.

2. Other Enterprises of Principals(if any):

Pres. has trucks and buses, and imports heavy electrical cable.
Vice-Pres. has several stores in Kabul, including cloth-trading business.

3. Introductory Comment (if any)

Pres. was in London on a sales trip, and Vice-Pres. was moving between shops in Kabul, so not much finance information available.
Ms. Lailoma took note of location of VP's main shop, so perhaps he may be visited there.

4. Factory and Production, Labour, etc.

Factory is well back from main road, very near airport. Large yard, partly stocked with rolls of electrical cable. Building floor area for raisins 25,000-30,000 ft²., with the machinery set in perhaps a third of it. Machinery is from California, a long line of mechanical cleaners, de-stalkers, sorters, washers, and carton-packer, linked by conveyors. It is not in bad condition, but every outlet opened showered dirt and old raisins. There were areas for finished goods, unprocessed raisins in sacks, and for metal tables for manual sorting and washing. Labour is 100 women, 30 men. The factory works from late April to December. Part of its roof had fallen in from heavy snow and rain, and is currently under repair. The building is 'formal' but not really sturdy. There is space for a carton-factory but this has not yet been bought, only considered.

Last year's production was 500 tons, capacity is 3,000 tons p.a.

5. Marketing

Product is packed in plastic sheeting inside basically plain cartons, 12.5 Kg net wt. Some is exported to USSR, some to UK to an Asian

import house. Not clear why output so far below capacity, possibly marketing problems because they had > 20 tons unshipped finished goods and > 100 tons raw product in sacks. Product sample tasty, but raisins small and still had a few stalks etc.

6. Raw Material and Other Input Supply

Carton blanks are bought from a local factory. Raw raisins are bought in season from various parts of the country. Payment is 50% cash-on-delivery, rest after one month.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Cashier did not know.

a1. Characteristics of Funds Sources

N/applic.

b. Principals' Other Enterprises as Potential Funds Sources

No definite comment possible.

c. Problems/Opportunities Possibly Needing External Finance

None apparent.

d. Bankability of Enterprise for Potential Financing.

No comment.

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 09.04.91 Counterpart: Ir. Omar

1. General Identificatory Information

- a. Name of Enterprise: Ahmad Hadi Pressure Pots
- b. Address/Location: See Gen. Questionnaire (SGQ)
- c. Name of President/Name and/or Title of Interviewees
Interviewee was the Accountant
- d. Date of Set-up 1987
- e. Legal Status Private Company
- f. Total Investment Afs. 32 million
- g. Labour Force. Total:24 Mgt: 2 Clerical:1 Supervisory: 1
Skilled: 6 Un/Semi-Skilled: 14
- h. Main Activities/Product Lines
5-, 8-, 10-, 15-litre pressure pots, Aluminium, Iranian-design.

2. Other Enterprises of Principals(if any):

Owner (sole proprietor) has a sporting goods import business.

3. Introductory Comment (if any)

Owner was absent, in Tashkent. Acct't knew all about the p/p enterprise, but not about the import business.

4. Factory and Production, Labour, etc.

Presently using premises rented for Afs. 25,000 per month. This looked like a converted traditional house, with 4 rooms (1 floor) and a courtyard. Total floor space ca. 1,000 ft². Cramped, they want to have an expanded factory in the industrial area, have been wanting it ever since set-up. CODAPI has written four letters to the relevant MInistries since early 1987, but Ir. Omar explained that land purchase by government is difficult, and then utilities must be installed. He says another 2 years, maybe more, before an area can be developed and available. Meanwhile the owner is looking round for privately-acquired land to develop.

Acct't says expanded premises are Problem No. 1 for the enterprise. Could produce and sell 3x more if could find right premises.

Process is very simple. Al scrap is melted in a crucible set in a flame flue set in the ground, fired by diesel oil fed from a barrel. No chimney, exhaust escapes through rough hole in a makeshift zinc roof. Al is ladled by hand into hand-made sand moulds. The roughs are then machined and polished to shape and finish using Pakistani powered lathes and polishing machines. For the latter, 3 boys renew sanding wheels with fresh abrasive on an hour-to-hour basis. The polishing machines give breakdown problems, have to fetch outside mechanic to repair. Would welcome advice on preventive maintenance. Product is

pressure-tested with compressed air.

All machines were bought new in 1987 in local stores for Afs. 4 million cash, would cost 15 million now. Used own money.

If expand, might try improved shapes, other machines, but machines might just be more of the same.

Labour is a problem to keep. Because of hard working conditions, workers usually leave after 6 months, despite being paid Afs. 70,000-80,000 per month. This is Enterprise Problem No. 3, Acct't says.

5. Marketing

Selling is no problem, demand exceeds supply. Neighbour of Ir. Omar, lives other side of Kabul, came in to seek pots, but could not supply even though down payment in advance offered. Sales are from a depot in town, employing another 4 people. Traders come, buy, mostly for cash (no credit, sometimes some advance paid), sell all over country but no exports. Competition is from three other Kabul factories, no significant imports. Average price of a mixed lot of pots Afs. 6,200 per piece, vs. Afs. 3,000 in 1987. Cost of Production Afs. 5,500. One year after set-up, production about a third of current, with 7 employees.

Product is fairly-attractive, but not up to Western finish. Design does not include rubber pressure-sealing ring.

6. Raw Material and Other Input Supply

This Enterprise Problem No. 2. Supplies of scrap and oil scarce and dear. 7 kg of scrap cost Afs 1200 in 1987, 4000 now. Diesel Afs 9000 per barrel then, 45000 now. Buy scrap from Kabul dealers for cash, diesel also. Heavy fuel oil not available. Owner now in Tashkent, trying to see if can import Al cheaper from there.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Till now, 100% own money. No loans (formal or informal) or l/c. Have perhaps used some relatives' money.

a1. Characteristics of Funds Sources

See above. If expand, may seek a loan from a bank. If can't get, will manage on own.

b. Principals' Other Enterprises as Potential Funds Sources

Evidently used for start-up. Possibly will contribute to expansion.

c. Problems/Opportunities Possibly Needing External Finance

For expansion, a loan of up to Afs. 50,000,000 would be useful.

d. Bankability of Enterprise for Potential Financing.

No comment. Acct't did not know if owner's other business had used l/c or other bank services.

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 09.04.91 Counterpart: Ir. Omar

1. General Identificatory Information

- a. Name of Enterprise: CAM Factory
South Kabul
- b. Address/Location:
- c. Name of President/Name and/or Title of Interviewees
- d. Date of Set-up: 1973
- e. Legal Status: Project Factory
- f. Total Investment: Between US\$5 and 10 million, depending on valuation of equipment
- g. Labour Force. Total: 200 for 2-shift operation, now 40
- h. Main Activities/Product Lines
Coca-Cola, Fanta.

2. Other Enterprises of Principals (if any):
Not explored.

3. Introductory Comment (if any)

Factory has not operated for 3 years, just now being re-commissioned.

4. Factory and Production, Labour, etc.

Factory is large, formal. Has the standard equipment and utilities of a modern bottling plant, except crating/uncrating equipment, but including a CO2 plant. Also has 45 delivery trucks. Equipment a bit rusty in some places, but OK where already re-commissioned. Coca Cola sent at its own charge two European technicians to help re-commission.

Labour not anticipated as a problem. Company paid its labour for two years while not in operation.

Mgt. seems go-ahead with a dynamic lady president. VP is experienced ex-banker, friend of AFG/90/003 CTA.

5. Marketing

In 1987, sold 1 1/2 million crates of 24, at 9 Afs per bottle ex-factory. Plans this year 2-3 million crates at 60 Afs per bottle plus 60 Afs deposit per bottle. Outside Kabul, distributors will transport product at their own risk. No credit will be given to customers.

Price is regulated by Min of Food and Light Industry after cost submission by company. Headache (a) gives most of the profit to retailers (b) takes at least 3 months to change, even if costs change

radically. Should be a more flexible formula.

6. Raw Material and Other Input Supply

Main problem. Before 1987 supplies came from or via Pakistan, then road closed. Sugar distribution was government-controlled, none came to CMA. Ergo shut-down.

Now can buy sugar on Kabul market, although expensive (600-700 Afs. per kilo, 32 grams needed per bottle), and can import syrup, crown corks, bottles, etc. from Europe and Singapore via USSR. Coca-Cola is supplying an initial 6 months' supply of syrup as interest-free credit. For the rest, will use own money to import initial shipments, turnover, make money, finance follow-up and larger shipments. At that point seek part-finance from banks for imports, but cannot bear interest burden at start.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Company built up with own money. Ditto recommissioning and initial re-supply, except for Coca Cola trade credit.

al. Characteristics of Funds Sources

IDBA is slow and loans small, At least 3 months' to get Afs. 10-20 million, and by then too late.

Commercial banks mostly loan to traders, particularly for imports. They finance in the interim the 80% of the l/c amount typically not covered by the importer's down-payment. Forex rate risk is borne by the importers. Also, their deposits are very volatile. Once they dropped by 50% in one month because depositors wanted to buy \$. Untils the roads are open, exports will be low and \$ scarce in Kabul, forcing high inflation, presently over 100% per annum. Very bad for industry, particularly with price-control.

b. Principals' Other Enterprises as Potential Funds Sources Not explored.

c. Problems/Opportunities Possibly Needing External Finance

If finance needed, it would be on a large scale. Possible financing scheme not applicable.

d. Bankability of Enterprise for Potential Financing. Not applicable.

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 10.04.91 Counterpart: Ir. Nasirullah

1. General Identificatory Information

- a. Name of Enterprise: Sharam Carton Factory
- b. Address/Location: Quarshi Complex
- c. Name of President/Name and/or Title of Interviewees
M. Quarshi
- d. Date of Set-up: 1989
- e. Legal Status: Private Company
- f. Total Investment: Small part of Quashi complex.
- g. Labour Force. Total: 35. not broken down
- h. Main Activities/Product Lines
Cartons for use in Quarshi's other businesses, particularly raisins.

2. Other Enterprises of Principals (if any):

21, various, including raisins, carpets. Group has offices in California, London, Hamburg, Italy, etc.
He also has a plastic wrapping factory dedicated to his complex's own needs.

3. Introductory Comment (if any)

Mr. Quarshi was interviewed in his city office. The carton factory was not visited.

4. Factory and Production, Labour, etc.

The eqpt. is Indian, from a Bombay firm. It was ordered and paid for 100% six years ago, but only arrived 2 years ago, after intense pressure via bank and diplomatic channels. It can produce many carton sizes from small to very large, and 3-ply and 5-ply. However, the quality of carton is not good, and cannot be printed attractively. Quarshi has applied to government to approve the importation of US equipment to replace the Indian plant. The US plant would be higher-capacity, use different paper, and produce the desired quality of printed carton. Govt. however has not approved the application, because the present plant has adequate quantitative capacity. So Quarshi is importing printed carton blanks from the US for export shipments to Western countries.

5. Marketing

No carton marketing is required, production is only for Quarshi's other enterprises.

6. Raw Material and Other Input Supply

NB This discussion was general to all of Quarshi's businesses, with

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 10.04.91 Counterpart: Ir. Nasirullah

1. General Identificatory Information

- a. Name of Enterprise: Shahi Technic Ltd.
Kabul
- b. Address/Location:
- c. Name of President/Name and/or Title of Interviewees
M. Rafiq Karim
- d. Date of Set-up: 1960; significant expansions ca. 1975 (see below).
- e. Legal Status: Private Company
- f. Total Investment: ca. Afs. 7 million (claimed, but obviously much more).
- g. Labour Force. Total: 69. (Figures exclude battery factory).
- h. Main Activities/Product Lines
Automotive parts importing, plus import of heavy construction vehicles.
Repair and reconditioning of large and small engines and parts, primarily for vehicles.
Automotive Battery factory (JV with Lucas of UK).

2. Other Enterprises of Principals (if any):

None apart from above.

3. Introductory Comment (if any)

Mr. Karim was interviewed at his city depot/factory. His two other factory locations were not visited.

4. Factory and Production, Labour, etc.

Main problem is shortage of skilled labour. Company could use two or three times their present complement of such labour. The city factory (owned by Karim) is adjacent to office and parts store. The company started there. Now it only has machine tool operations there, having shifted welding and casting to its Pul-i-Charkhi factory, where they once also made metal furniture. The battery factory is at a third location.

The factory seen was clean and neatly laid out, about 1,500 ft². The machine tools varied from 3 to over 20 years old, and were in good condition. Most were West European, one or two made by Karim himself. Probable value of the order of US\$200,000. All were bought with Mr. Karim's own money.

5. Marketing

Demand exceeds supply, and company's reputation is high: no active marketing is necessary. They have a government sector for sales to that sector. There, prices are based on cost plus 7%. Otherwise, company's prices (at least for repairs) are not government-controlled.

6. Raw Material and Other Input Supply

Raw material supply was a problem for the battery factory, now eased by shipments via the USSR. Output was 50 units in 1368, 1,100 in 1369 (300 truck batteries, 800 car batteries). Otherwise no apparent problem. About 50% of materials and parts are imported, 50% bought locally. On imports, must pay 30-40% down-payment to open an l/c. This down-payment is financed with own money.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Company self-financed apart from Lucas' equity investment in eqpt. and materials in the battery JV, and one Afs. 3 million loan for equipment and materials in the repair business from IDBA, 7% interest p.a. four years to pay. This was in 1988/0 and took about 3 months to get. He was turned down by IDBA for a 10 million Afs. loan, partly from prejudice, partly from his own under-valuation of his own investment. Has revalued it, and plans to re-apply.

a1. Characteristics of Funds Sources

Commercial bank interest rates are too high to be attractive.

b. Principals' Other Enterprises as Potential Funds Sources

Cross-financing doubtless being practised.

c. Problems/Opportunities Possibly Needing External Finance

No specifics identified, but there are probably expansion opportunities, But company may not need external finance.

d. Bankability of Enterprise for Potential Financing.

With a more realistic attitude to asset valuation, probably bankable.

Finance Survey

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 13.04.91 Counterpart: Ir. Nasirullah

1. General Identificatory Information

- a. Name of Enterprise: Rahim Zada Carpets
- b. Address/Location: Shar-i-nau, Kabul
- c. Name of President/Name and/or Title of Interviewees
- d. Date of Set-up: 1986 (registered); but in this business for a total of 20 years, mostly in Herat.
- e. Legal Status : Private Company
- f. Total Investment: Afs. 8 million (probably considerably more)
- g. Labour Force. Total: 200. For breakdown, see attached sheet.
- h. Main Activities/Product Lines
Wool and silk carpets for export.

2. Other Enterprises of Principals(if any):

Not covered.

3. Introductory Comment (if any)

The enterprise is owned and run by 4 brothers from Herat, who shifted it to Kabul 5 years ago, when situation in Herat (export transport?) became unsatisfactory.

4. Factory and Production, Labour, etc.

Workshop is 2 floors up from a row of carpet shops in a main street in Shar-i-nau. They have two rooms as office, with a few finished carpets. And a larger room (say 250-300 ft²) with 6 or 7 upright wooden handlooms, all with carpets in process, manned by about 15-18 boys circa 10 years old, supervised by an adult male skilled worker. Most of their workers are however in two country areas about 15 kilometres from Kabul, one to the west with ca. 100 workers, one to the north with ca. 60. Their numbers are increasing all the time, when the enterprise came to Kabul 5 years ago, it had twenty workers. In Herat previously, they had 5 workshops like the one we were standing in. The looms seen, looked at least 10 years old. In town or country, the enterprise owns the looms and the materials and pays the workers for weaving only. In the country areas, the workers are in scattered locations, and are coordinated by local agents of the company, who deliver raw materials, check the progress of work, and pick up the carpets.

The company reckons that a carpet typically takes 2-3 months to weave. They seem to concentrate on small to medium sizes (2-3 m²).pick up

5. Marketing

Production is all for export. 200,000-280,000 Afs (or knots?) per m². They have wool and wool/silk carpets. The designs were not particularly traditional. One of the brothers lives in Germany and handles marketing and sales, mostly to Germany but sometimes to UK and USA. He directs or suggests product-types, and the company's designs

are their own, not reproductions to order of buyers. No advances from buyers are received. Time to sale, after arrival of goods in Germany, is indeterminate, a few weeks or months.

One at least of the Kabul-based brothers is learning English.

6. Raw Material and Other Input Supply

Claims all dyes local vegetable. At any rate, the company does its own dyeing of yarn, at a circa 400-500 ft² location adjacent to the brothers' Kabul home, using traditional techniques and equipment. Yarn is both local and foreign. Silk yarn comes from cottage industries in the Herat area, bought for cash, collected and sent to Kabul by a Herati agent. Wool yarn (all of it?) comes from Belgium. They do not use l/c s for import, instead the brother in Germany makes bank transfers within Europe in cash payment for yarn.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

All fixed investment and most working capital is self-financed. No l/c associated or export loans or credit, nor any loans from informal sources like the Serai Shazda. This, despite a purchase to final sale cycle of 6-12 months.

They have however had two smallish IDBA loans (1.5 million Afs in 1986, 2.7 million Afs in late 1990) for locally-purchased raw materials and progress payments to workers.

a1. Characteristics of Funds Sources

The IDBA loans were at 11% interest p.a. The first had a four-year term, and was fully-paid per schedule. 10 million Afs were asked for, 1.5 million approved and received. One month after final payment, applied for a Afs 3 million loan. 2.7 million were approved and received, after 3 months: 2-year term. They do not know why IDBA approved less than was requested - 'the bank Board decides this'.

b. Principals' Other Enterprises as Potential Funds Sources

Not covered.

c. Problems/Opportunities Possibly Needing External Finance

They say they could use larger loans, and would be willing to pay higher rates of interest for them (at, say, 20% pa), subject to their appraisal in each case of the economics of the deal.

d. Bankability of Enterprise for Potential Financing.

Probably quite good, but would need further references from IDBA and in Europe.

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 14.04.91 Counterpart: Ir. Nasirullah

1. General Identificatory Information

- a. Name of Enterprise: Aziz Delux Confectionery Ltd.
- b. Address/Location: Industrial Park, Kabul
- c. Name of President/Name and/or Title of Interviewees
Mr. M. Sarwar (NB Not Mr. M. Sarwar Baluch)
- d. Date of Set-up: 1987
- e. Legal Status: Company
- f. Total Investment: Afs. 23 millions
- g. Labour Force. Total: In 1987: Management: 3 Clerical: 1
Supervisors: 2 Skilled : 7
Unskilled: 17 Total : 30
Also, in shortbread, has 80 workers over 2 shifts, mostly low-skilled.
- h. Main Activities/Product Lines
Filled Chocolates
Candy

2. Other Enterprises of Principals (if any):

Shortbread factory, Chindawal (see below)
Plastic shoes
Biscuits, cookies, etc.
Spaghetti
Has applications in for manufacture of bricks and other construction materials.
Has mechanical workshop at Industrial Park, but may not be a separate enterprise.

3. Introductory Comment (if any)

The Aziz Delux factory is not operating and was not visited. The President was interviewed at the site of his shortbread factory in Chindawal, Kabul. He was reluctant to reveal genuine information.

4. Factory and Production, Labour, etc.

The Aziz Delux (AD) factory employs simple Pakistani equipment. While operated (1987-8) it gave no operating or breakdown problems. Nor were labour or water a problem.

The shortbread factory uses ghee (Singapore) plus wheat and sugar bought locally on free market. Circa. 2000 ft² + a few hundred ft² of mezzanine storage space. Small grinding mills, dough-mixers, etc. plus own-manufactured electric tunnel-ovens with internal conveyors. Most shaping by hand. A large % of workers are young boys.

5. Marketing

At AD, claims products were mostly sold to traders for the countryside

markets. No credit given, except to one or two people for up to two months.

The shortbread is sold via 11 company-owned agencies in Kabul, whence consumers and retailers come to buy. No credit to final customers, a week to the agencies. Product is OK, a bit floury, it sells well, when started in 1988 had only 20 workers.

6. Raw Material and Other Input Supply

Has own gen-set, but diesel oil now in short-supply. At AD, was supplied in 1987-88 by government depots with r/m, when that stopped, factory shut down. Free market prices high, and claims imports cannot be obtained in lots of less than 20 tonnes. Neither Ir. Nasirullah or I believe this, maybe shut down because profits low in confectionery. For the shortbread factory, buys for cash on free market. For plastic shoes, uses l/c system to import.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Mostly self-financed. Uses l/c associated loans for plastic imports. In 1989, had a Afs. 9 million loan from IDBA for raw materials, one year to pay, 10% interest rate. Paid off on time, has not yet applied for a new one. Took 3 months to get the first one, asked for Afs. 15 million.

al. Characteristics of Funds Sources

Main problem is that IDBA loans are too small, they cut applications by 2, 3, 4... As for 'squeeze', that is a 'family secret' (IDBA President has a share in his enterprises).

b. Principals' Other Enterprises as Potential Funds Sources

Almost certainly considerable.

c. Problems/Opportunities Possibly Needing External Finance

None identified.

d. Bankability of Enterprise for Potential Financing.

Not high on personal impression, but might be checked with IDBA.

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 14.04.91 Counterpart: Ir. Nasirullah

1. General Identificatory Information

- a. Name of Enterprise: Sakhi Technical Shop Ltd.
- b. Address/Location: Karta-i-Parwan, Kabul
- c. Name of President/Name and/or Title of Interviewees
Ghulam Sakhi, Pres.
- d. Date of Set-up: 1986
- e. Legal Status: Private Company
- f. Total Investment:
- g. Labour Force. Total: 10
- h. Main Activities/Product Lines
Repairing/testing diesel engine pumps/nozzles.

2. Other Enterprises of Principals (if any):

None, except possibly he imports parts for sale as well as use.

3. Introductory Comment (if any)

Turnover is Afs. 10 million per annum or more. Last year, premises were hit by a rocket, which set them back a bit.

4. Factory and Production, Labour, etc.

Has about 300 ft² workshop, with 120ft² office adjoining, in rented private premises on a largeish street. This has been their site since set-up. Set up by 4 brothers, all of whom saved while apprenticed to various engine-shops, and used the savings to buy equipment.

Has one large UK pump-tester, one UK nozzle-tester, plus a German n/t now broken down, plus benches, vices etc.

Wanted someone to help him understand electronics of the pump-tester, as insurance vs. breakdown. I said I would mention it to Claude Villard.

Space was clean, and seemed neatly laid out. Applied 8 months ago for land in Industrial Park through CODAPI. No results yet.

5. Marketing

Initially, advertised on TV, radio, newspapers, now no longer: has reputation. Works on all types of diesel engines, most common are mini-buses and 300 buses. Prices on a cost-plus basis: is making profits.

Would first expand his present lines (would have done so already except for rocket set-back). then broaden into overall repair of diesel engines.

6. Raw Material and Other Input Supply

- 60 -

Imports most parts from UK and Germany. Does not use l/c but pays by bank transfer abroad in advance of insured shipment. No problems yet. Buys necessary forex in Serai Sharzda. Used same payment system for machinery import.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

100% self-financed, no bank or other loans.

a1. Characteristics of Funds Sources

IDBA/Bank loans carry unwanted interest, are slow to get, and above all are too small. He admitted that if he could larger loans (Afs. 30-50 million) fast, he would be willing to pay a higher interest rate.

b. Principals' Other Enterprises as Potential Funds Sources
Not applicable.

c. Problems/Opportunities Possibly Needing External Finance

Wants to buy 2 pump-testers, 2 nozzle-testers, and a grinding machine; lathe, lathes and boring machines. Would invest in these as a priority over constructing his own, larger, premises. Could use an Afs. 50,000,000 loan.

d. Bankability of Enterprise for Potential Financing.

Reasonable, if he becomes franker about his investment and turnover.

Industrial Enterprise Visit Report

Consultant: JK Visit Date: 15.04.91 Counterpart: Ir. Zalmai

1. General Identificatory Information

- a. Name of Enterprise: Jowya Tailoring
- b. Address/Location: Behind Barikot Cinema
- c. Name of President/Name and/or Title of Interviewees
Qurban Ali Jowya
- d. Date of Set-up: 1989/90
- e. Legal Status: Individual Proprietorship
- f. Total Investment: Afs. 9 million
- g. Labour Force. Total: 19 Mgt: 2 Clerical:2 Supervisory: 2
Skilled:6 Un/Semi-Skilled: 7
- h. Main Activities/Product Lines
Garments

2. Other Enterprises of Principals(if any):

Before establishing factory, had a clothing, perfume import business.
Now, has a shop selling cigarettes and milk.

3. Introductory Comment (if any)

Pres. is quite young, say late 20s/early 30s. Ir. Zalmai says his father is very rich, and started the son in business.

4. Factory and Production, Labour, etc.

It being proto-Eid, the factory was not working on the day of the visit, and one room was locked. Saw one production room about 200 ft² plus office 120 ft². Other production room is circa 400 ft² and fronting it is another 200ft² empty room. The p'/room seen had seven Butterfly sewing machines, there are 8 more plus an eyelet making machine in the other p'/room. All sewing machines seen had motors removed, claims motors are kept in stock elsewhere. Machine + motor costs Afs. 45,000 in the Kabul market, buys for cash. They are reliable, have given no problem so far. Motors removed because no electricity.

Cloth, cardboard patterns, hand-cut. Labour is skilled, no problem to maintain quality: this would be difficult if sub-contracted, so keep work in own labour force. Both men and women are workers, not segregated by room.

Premises are privately rented. Has applied for land to erect a factory in the Industrial Park and expand, but plans to expand number of machines on present site.

5. Marketing

At set-up (10 machines) produced for export via Handicraft Emporium mainly to USSR but also to Middle East, Africa: but last year HE cancelled its contract with the enterprise because of bad relations with it. At that time had 15 machines, and export price per windcheater was Afs. 2,700. Now sold only to domestic market at Afs 5,500, because all costs have gone up. Product is attractive, with

clean simple design, and good sewing and materials. Some interior finish could be improved, as could the zip, and they should have sewn-on labels, but the product is already genuine export quality. Now, a trader-friend has taken a sample pair of pyjamas to USA to seek export orders.

Sales are primarily to Kabul merchants (shops). Some provincials buy direct for cash, but mostly they buy indirectly via Kabul merchants. He sells for cash, at 15% discount. Or without discount, for 40% down, rest paid weekly (on a Monday round of collection visits) over one month. Some business is done to order against 25-30% advance, remainder paid on/after delivery on one of the above two systems, but without specific cash discounts.

6. Raw Material and Other Input Supply

Cloth is all Japanese or European, thread and zips are Pakistani. 30% imported direct, 70% bought in Kabul from merchants. Choice depends on relative prices. If imports, sometimes pays by bank transfer to supplier, but more often by l/c system which is government-guaranteed and safer. Goods come either by air-freight, or rail to Soviet border. Pays 25-30% down, buying forex in Serai Sharzda, rest (also bought in Serai Sharzda) can be paid up to one month after arrival of goods.

If buy locally, sometimes pays cash, sometimes 40% down with two months to pay installments. Cash purchases get a 30-40% discount.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

Fixed assets financed with own funds, working capital partly so. For w/c, also uses:

- a) customers' advances, as above.
- b) l/c associated loans, as above
- c) trade creditors in Kabul, as above
- d) s/t loans from forex dealers
- e) s/t loans without interest from relatives and close friends.

al. Characteristics of Funds Sources

IDBA: no loans, not attractive, too slow and bureaucratic, with too many conditions attached.

Commercial banks: OK, for l/c loans. Not generally enthusiastic.

Forex dealers in Serai Sharzda: 2 or 3 big ones apart from Omarzey (Ir. Zalmai noted the names and office locations of two of these, on the back of the General Questionnaire) will loan part of a forex purchase for twenty days maximum. The forex rate on the forward purchase is fixed at 10% above the current rate. These people will make such advances on the spot, on the basis of personal knowledge and trust.

Friends, relatives: interest-free loans for a month or two, e.g, to finance big cash purchases of cloth at a discount. They may share in the shipment? They too will deal on the spot, on a trust basis.

b. Principals' Other Enterprises as Potential Funds Sources

Not explicitly covered, but highly probable.

c. Problems/Opportunities Possibly Needing External Finance

Expansion of fixed assets, possible exports, but there may be no shortage of other (primarily informal) finance.

d. Bankability of Enterprise for Potential Financing.
Reasonable (good character, low asset security). Would need further enquiry.

Industrial Enterprise Visit Report

Consultants: JK, JC Visit Date: 21.04.91 Counterparts: Ir. Nasirullah
Dr. Hyder

1. General Identificatory Information

- a. Name of Enterprise: Mowafaq Shoe Factory
- b. Address/Location: Behind Barikot Cinema, Kabul
- c. Name of President/Name and/or Title of Interviewees
Murad Ali
- d. Date of Set-up: 1987
- e. Legal Status: Proprietor
- f. Total Investment:
- g. Labour Force. Total: 24.
- h. Main Activities/Product Lines
Womens' & girls shoes (leather-style, but made from PVC sheets).

2. Other Enterprises of Principals(if any):

Not covered. Answers on this point would have probably been unreliable anyway.

3. Introductory Comment (if any)

On most quantitative points, information given seemed highly unreliable.

4. Factory and Production, Labour, etc.

Premises are rented privately. Comprise 3 work/store-rooms totalling about 400-500 ft² plus adjoining office 120 ft². Most work manual done by boys and young male teenagers. 2 or 3 adult males operating electric sewing machines. All equipment, including moulds/lasts bought locally for cash, but most is of Pakistani/Iranian origin. JT thought each worker might produce 4-5 pairs per day, thus total production circa 40,000 pairs per year. When started, had 8 workers, a year ago about 15-16.

5. Marketing

Product is fairly low-quality chintzy. Prices claimed 1300-1800 per pair, probably too low. Shopkeepers come and buy at factory. Production is not to order. In a minority of cases gives up to one week's credit to buyers, no price differential.

6. Raw Material and Other Input Supply

All materials bought locally, mostly for cash. Sometimes suppliers' will give up to one month's credit with no price differential to help the trade keep in motion.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

All assets equity-financed, bar limited trade credit as above and one

1988 loan from IDBA for machinery and materials.

a1. Characteristics of Funds Sources

IDBA loan was for Afs. 600,000, 10% interest rate, paid off in 8 months per schedule. Will not repeat it, getting it was a big headache, 4-5 months of meeting conditions, toing-and-fro-ing between places.

Was not keen on idea of 20% interest rate if finance could provided within one month maximum. Probably didn't believe it.

b. Principals' Other Enterprises as Potential Funds Sources
Not covered.

c. Problems/Opportunities Possibly Needing External Finance
Would like to expand in own factory in Industrial Area, but first would expand equipment, labour and upgrade quality on existing premises.

d. Bankability of Enterprise for Potential Financing.
Not high, but needs checking with IDBA.

Industrial Enterprise Visit Report

Consultants: JK, JC Visit Date: 21.04.91 Counterparts: Ir. Nasirullah
Dr. Hyder

1. General Identificatory Information

- a. Name of Enterprise: Sediqyar Tannery
- b. Address/Location: Kabul
- c. Name of President/Name and/or Title of Interviewees
Pres.' nephew
- d. Date of Set-up: 1986
- e. Legal Status: Private Company (family-owned)
- f. Total Investment: Afs. 3,200 million (maybe more: Afs. 3,000 million
working capital)
- g. Labour Force. Total: 200, 150 in Kabul, 50 in Herat
- h. Main Activities/Product Lines
Various unfinished leathers (1.5 million pieces in YH 1369) + wool
(SGQ). In Herat, will also produce finished leather after effective
operating start-up there in a month or two.

2. Other Enterprises of Principals(if any):

Dried Fruit Export
Transport: trucks and buses
Hotel being started in Mazar-i- Sharif.

3. Introductory Comment (if any)

Factory was not visited, since Mr. Cabak already knows it well.
Instead visited office HQ of the group of companies, which is family
held.
Before 1986, Sediqyar was a pickled skins + wool exporter. The
pickling etc. was done by an associate, not by Sediqyar.

4. Factory and Production, Labour, etc.

When started in Kabul in 1986 tannery only had about 20 workers. Has
since gradually been built up, along with widening expertise. Machines
imported Iran and Pakistan. Some are of Western origin. The company
buys Rupees or other forex in Serai Sharzda, transfers them to agents
in I or P, and pays 100% cash there. No problems with equipment
breakdown or operation.
Herat opening held up primarily by lack of electricity. Bought genset
in Kabul, have waited 4-5 months while it is shipped to Herat via P
then I. Still not arrived, so now have bought a genset in Herat
itself.

5. Marketing

Nearly all exported, mostly to USSR and E. Europe. Prices are cif or
fob Haryatan, so payment comes quickly, no need for export loans.
Payment comes as a Da Afghanistan Bank 'clearing \$' cheque, which

since last year they can now trade directly for Afs. in Serai Sharzda. For products, see above. Leathers are from sheep & goat skins not cattle hides.

6. Raw Material and Other Input Supply

Chemicals bought in Pakistan, using same system as for imported machinery above. Company arranges own transport to Kabul.

Skins bought in Kabul market near Serai Sharzda, from wholesalers who arrange collection from town and country. Pay 100% cash; occasionally seek 7-10 days credit at unchanged price: no interest. Skins average about 6 ft², price now Afs. 3000, 3 years ago about Afs. 600.

7. Financial Aspects Not Already Explicitly Covered.

a. Sources and Uses of Funds

They own their own factory and all its assets. No loans other than occasional short-term skin-trade credit as above.

al. Characteristics of Funds Sources

They are strongly Islamic and do not believe in loans at interest from anybody. Sometimes however they may take up to 10 days short-term loan from a commercial bank for purchase of seasonally-peaking materials, e.g. raw raisins. But no loans for capital development or normal working capital, in any of their enterprises.

b. Principals' Other Enterprises as Potential Funds Sources

Almost certainly considerable cross-financing.

c. Problems/Opportunities Possibly Needing External Finance

In Herat, plan later to integrate forward into shoe and leather garment manufacture, but do not want loans.

d. Bankability of Enterprise for Potential Financing.

Not applicable.

ANNEX 2

Commercial Bank of Kabul

(STRICTLY CONFIDENTIAL)

1. Promoters

The principal promoter of the proposed Commercial Bank of Kabul (CBK) is Mr. A. Basir Omarzay, who is customarily known as 'Omarzay'. Omarzay is a very well-known Afghan businessman. About twenty years ago, he was an import-export trader, and he retains a large interest in that sector, but has long since moved on to other things. He has several large industrial enterprises currently projected in Afghanistan and Iran, but his main operations are in foreign exchange dealings and associated financial transactions, including short-term loans. In this field, he is recognised on all sides to be pre-eminent in Afghanistan. His head office is adjacent to the Serai Sharzda, the large and recognised private free currency market in Kabul. Brothers operate branches of his company in Peshawar and Dubai. He also has small offices or permanent agents in Mazar-i-Sharif and Kandahar.

These offices and branches handle between them a very large volume of business. For example, in foreign exchange dealings, the turnover last year (1369 AH - roughly April 1990 to March 1991) was equivalent to well over US\$300,000,000, in US\$, Pakistani Rupees (Pak Rs.), Dubai Riyals, Deutschemarks (DM) etc. The foreign exchange dealings were operated without touching some separate large hard currency deposits maintained by Omarzay in New York with the Bank of New York and Banker's Trust Company.

The Bank of New York has in the past year been advising Omarzay on the set-up of the proposed CBK. Omarzay also has deposits and frequent dealings with Grindlay's Bank in London, with Deutsche Bank in Hamburg, and (exclusively among Afghan private businessmen) US\$ deposits in Moscow with the Soviet Foreign Trade Bank.

Besides buying and selling foreign exchange, Omarzay - at present on a 'semi-official' offshore, but nevertheless very extensive, basis - makes substantial short term loans, and opens letters of credit (l/c), to Afghan traders and industrialists. This he does 'on-the-spot' or over the phone, on the basis of his knowledge of the client; without bureaucracy and often even without immediate documentation, thus in marked contrast to the commercial banks, all of which are government-owned. For this reason, businessmen prefer to deal with him for such financial services.

Omarzay's business, Omarzay Co. Ltd. - which is wholly-owned by him and his close relatives - is very profitable. It had a net profit last year (AH 1369 - 1990/91) of US\$4,000,000. The profit stems partly from l/c commissions and interest, partly from interest on active deposits with foreign banks, and partly from margins on foreign exchange dealings. These last come about in various ways. Among them are (a) differences between free-market currency rates in Kabul and in Peshawar, Dubai, etc. (b) differences between rates in Kabul for US\$ bills of small and large denominations, (c) slight premia for US\$ in Moscow, making use of Omarzay's exclusive US\$ deposits there, and (d) differences in rates for US\$ in various centres in Afghanistan. As an example of (d), Omarzay buys many US\$ in Kandahar, where they are plentiful, having come from Pakistan. On the other hand, he collects many Afs. in Mazar-i-Sharif. Many businessmen take possession of import consignments there, arranging their own transport therefrom to Kabul. To permit this, they buy US\$ - usually for Afs. - in Mazar to liquidate their l/c obligations before

their consignments may be released.

Omarzay also holds money on deposit for four thousand people, mostly Afghan businessmen. He does not pay interest, but pays the smaller depositors a profit share. Despite earning no interest, the larger depositors have assurance of instant access to their deposits with Omarzay. This is not always the case with the state-owned commercial banks, which sometimes suffer liquidity shortages.

Omarzay is probably the most powerful financial figure in Afghanistan today. The commercial banks, and also Da Afghanistan Bank (the Central Bank), have recourse to him in case of liquidity shortages, e.g. on occasion to meet current wage bills. The great bulk of his transactions are however with private businessmen. Quite credibly, he claims to control 60% of market-rate foreign exchange dealings in Afghanistan.

A second promoter of CBK is Mr. M. Sarwar Baluch, usually known as 'Sarwar'. He is a long-established and respected banker and private businessman in Afghanistan. In the 1970s he was successively a high official of Da Afghanistan Bank (which operates also as a commercial bank) and Vice-President of the largest Afghan commercial bank, Pashtani Tejaraty Bank, which he was largely responsible for turning around from a shaky to a sound and profitable financial condition.

Sarwar is respected in ministerial and banking circles for this financial expertise. He recently drafted an amendment to the Banking Law of Afghanistan, which currently boasts only four pages for regulating the operations of all the non-central-bank banks in the country. The banking authorities have accepted this amendment, which now awaits presentation by the Prime Minister to Parliament. Concurrently, Sarwar has drafted the proposed Articles of Association of CBK. These are consistent with the banking law amendment, and will be submitted to start up CBK as soon as that amendment has been passed by Parliament.

Omarzay and Sarwar form a team with mutual trust in each other. It was Sarwar who introduced Omarzay to the New York banks in the late 1970s, and Sarwar who persuaded him that it would be best to make CBK a public company with 40% of the stock owned outside Omarzay's family (all stock will however be in private hands, with no government shareholdings). Correspondingly, Omarzay - who will be Chairman of CBK's Board of Directors - has insisted that Sarwar will be the President of CBK, and proposes to transfer all of Omarzay Co.'s financial business to CBK.

Although no other shareholders have yet been definitely nominated, it is known that several other large Serai Sharzda money-dealers and financiers - who operate more or less in the same ways as Omarzay, but on a smaller scale - are interested in buying CBK shares. Sarwar estimates that within a month or two of set-up, CBK's equity capital - proposed to be set at an initial minimum of 1 or 2 billion (= thousand million) Afs. - could well be a paid-up figure of up to Afs. 10 billion, i.e. about US\$10 million at current free-market rates. Omarzay himself estimates that CBK will foreseeably expand to US\$60 to 70 millions of equity capital. If these predictions are fulfilled, CBK may in a very few years become the largest financial institution in Afghanistan. For example, the maximum total assets of Pashtany Tejaraty Bank are estimated by Sarwar at US\$50 rillions; and the Central Bank estimates that the total combined loan business (mostly l/c-related) of itself and the commercial banks is US\$90 million.

2. Organisation

CBK's draft Articles of Association have been examined and discussed in

detail with Sarwar. CBK will be established as a private sector company with limited liability of its shareholders, and with a minimum initial equity capital of Afs. 1 billion, or perhaps Afs. 2 billion. Of this initial equity, 50% must be placed immediately in a blocked interest-free current account with Da Afghanistan Bank, the Central Bank; with the remainder to be paid-in within 9 months. Should an initial shareholder fail to pay-in the remainder applicable to his holding within that period, his shares will be cancelled and his money returned to him from the Central Bank account without interest or profit. These provisions, which are also in Sarwar's draft banking law amendment, are calculated to deter fraudulent and empty registrations of rival private banks and similarly frivolous equity investments in CBK itself.

CBK shares will all be Afs. 10,000 par value common stock, with equal voting rights: and may be bought in blocks of Afs. 10,000, 20,000, 50,000, 100,000 or multiples thereof, thus assuring the possibility of widespread shareholding by small investors. Shares other than the initial shares will have the same par value, but will be sold at the prevailing market price, which must be fully paid-in at the time of purchase. As noted above, it may be possible to raise up to Afs. 10 billion of equity within a month or two of CBK's set-up: of which Omarzay and/or his family will subscribe 60%, i.e. up to Afs. 6 billion if necessary. Initially, all shareholders will be private Afghan citizens. However, the Articles of Association will also permit foreign shareholders.

CBK may accept up to 5-10% of the value of subscriptions to its common stock in the form of real property or other fixed assets (e.g. land, buildings, vehicles) which are directly and appropriately usable in the normal course of its operations. This will encourage shareholdings by suitable but relatively illiquid investors.

The Articles lay down CBK's functions as including the following principal lines of business:

- receiving and giving loans, in Afs. and foreign currencies, at interest;
- accepting deposits in Afs. and foreign currencies;
- buying and selling domestic and foreign currencies and financial instruments;
- opening accounts with other banks: in Afs. within the country, and in foreign currencies at home and abroad;
- the buying and selling, and import and export, of gold and silver;
- opening and operating letters of credit;
- receiving lines of credit and overdrafts from banks abroad;
- issuing travellers cheques denominated in various currencies;
- guaranteeing customer's credit for consideration;
- foreclosing on defaulting customers;
- taking shares in other enterprises: these to be of a productive nature, e.g. factories, agricultural ventures. A maximum of 30% of the bank's equity capital may be invested in the shares of other enterprises;
- acting as buying and selling agents in real property for the bank's customers;
- directly employing foreign experts, within and outwith Afghanistan, without individual approvals by the Government;
- forwarding and insurance of import and export shipments of customers, and
- acting as voluntary arbitrators of commercial disputes between customers (this is intended to protect CBK's reputation).

Other clauses define the constitution and rights of the shareholders and their General Meetings; the Board of Directors; the Executive

(management); and the Supervisors. A brief resume of these follows below.

There will be an Annual General Meeting (AGM) of all shareholders, with provision also for Extraordinary General Meetings (EGM). The AGM will elect its own Chairman, a respected shareholder. The AGM will inter alia elect the Directors; set limits to the authority of the Executive; appoint the President (the chief Executive officer) for a five-year term; take a decision on the annual report and accounts; appoint and receive the report of the Supervisors; set investment policy; and approve or reject the write-off of bad debts. An EGM must be called if the annual loss reported exceeds 30% of equity, or if the Supervisors consider that it may exceed 50% of equity; and to decide on proposed changes of equity capital, or the merger or wind-up of the Bank.

The Board of Directors will consist of 7 members, who must be experienced and of good reputation in finance, trade, or economics, and will be elected for 3 years at the AGM. The Board will elect its own Chairman and Secretary from among the members. 5 members are to be its quorum, and it must meet at least every three months. It may invite expert persons to assist at its meetings. It appoints the Deputy President and Vice-President. It guides the Executive; approves the annual budget; sets interest and commission rates, and the format for loan agreements. It approves large loans made to CBK except under lines of credit and overdraft facilities; and approves the buying and selling of real property and of shares of CBK's invested companies; the opening or closing of branches; operating regulations proposed by the Executive. A Director may act as President in the absence of the Executive. Directors will receive no salary, but may receive annual fees. They may not sell their shares in the bank while serving as Directors.

The Executive - which is responsible to the Board of Directors - will comprise the President, the Deputy President, and one (or perhaps two) Vice-Presidents, who will all be full-time employees appointed for five-year terms. The Executive is responsible for all hiring and firing of other CBK staff. It prepares the annual budget, and also the annual report and accounts. It proposes the bank's operating regulations. It has expenditure authority within the annual budget. It may open CBK accounts with other banks, and operate lines of credit and overdrafts from them. It may plead for CBK in court cases.

The Supervisors stand essentially as internal Auditors. They are an accepted institution in Afghanistan, where only one international firm of independent auditors currently operates. The income tax authorities, for example, customarily use Supervisor-approved annual accounts - which must in CBK's Articles be presented to the AGM within four months of the end of CBK's financial year - in lieu of audited accounts, as a first basis for determining company tax obligations. In CBK's case, the Supervisors will be three shareholders who are neither Directors nor members of the Executive. They are appointed for two-year terms by the AGM, to which they make their own annual report. They review the accounts at least once every six months; review bad debts; check the bank's Treasury; and can act as arbiters in case of disputes between the Board and the Executive.

Among the Miscellaneous clauses, two are noteworthy. The only governmental body with power of review of CBK's operations will be the Central Bank; and CBK may receive loans, either domestic or foreign, without need of approval from the Central Bank or other governmental authority.

3. Operations

Omarzay's financial operations will be 100% transferred to CBK. Moreover,

as the projected 60% owner of the bank, Omarzay will not confine his role to the formal functions of the Chairman of the Board of Directors. His intention is to take an active part in the bank's management, and to spend at least 5 hours of each working day at its offices. His operations thus constitute a base from which CBK will start, and for its projected operations.

Last year (AH 1369, ending in mid-March 1991) Omarzay's turnover in foreign exchange dealings was as follows:

- US\$120,000,000, in New York, Moscow, Kandahar, and Dubai, with Dubai being the largest single centre;
- 400,000,000 Dubai Riyals (ca. US\$110,000,000), mostly in Dubai;
- Pak Rs. 1,200,000,000 (ca. US\$60,000,000), mostly in Peshawar;
- DM 65,000,000 in Hamburg;
- £ 4,000,000 in London, plus
- relatively minor amounts of other foreign currencies.

These and other dealings between customers resulted in a turnover of Afs. 800,000,000,000 in Kabul, Mazar, Herat, and Kandahar. Omarzay routinely keeps current account deposits of Afs. 1,000,000,000 with the Afghan commercial banks.

His clients in foreign exchange dealings were mostly Afghans, and Pashtouns operating across the Pakistani/Afghan borders.

In AH 1369, Omarzay opened the equivalent of US\$40,000,000 in letters of credit, mostly from Dubai where he is officially permitted to do so. Of this amount, US\$8,500,000 was for his own account as an import/export trader in such items as tractors, glassware, ghee, and electrical appliances. The remaining US\$31,500,000 was for Afghan, and Pashtoun border, customers. He receives an advance deposit of from 10% to 50% (depending on his assessment of the customer - the average is approximately 40%), and finances the balance until the shipment is received, i.e. usually for about three months. Presently, he has about 100 regular l/c customers, who each open on average three l/c's per annum. Predominantly, these customers are import/export traders, but some 12-15 of them are factory owners, and factory-related l/c volume is about US\$4,000,000.

Omarzay makes some short-term loans without interest in Afs. to traders and industrialists. These are essentially bridging loans of one to three months, to cover the needs of those occasionally short of liquidity. One typical loan was of Afs. 30,000,000 to a small/medium furniture factory,

He also receives deposits from 4,000 customers, mostly in Afs. They amount to Afs. 4,200,000,000, plus US\$500-600,000 in US\$. He pays no interest to depositors. However, for some 300 to 400 small depositors, he operates a profit-sharing scheme which paid them 19% per annum in AH 1369. Among his depositors are some 50 factory-owners.

Omarzay Co. is very profitable. Last year, it earned US\$4,000,000 net profit on about US\$10,000,000 actively employed, i.e. not counting in Omarzay's returns on his considerably larger 'inactive' foreign bank deposits and other investments. Of the net profit, about US\$1,000,000 is attributable to his own-account import/export business, leaving US\$3,000,000 profits from active financial operations. Such profits stem inter alia from differences in foreign exchange buying and selling rates; letter of credit commissions; interest charged on loans, primarily associated with letters of credit; and interest on the l/c advance deposits, which are re-deposited with foreign banks. The estimated return

on investment on l/c plus related foreign exchange business alone is about 30% per annum.

His operating costs are probably lower than those of the state-owned commercial banks. By employing diligent and honest staff who will be well-remunerated, Omarzay expects CBK can eventually operate US\$100,000,000 of letters of credit per annum with only 100 staff, whereas he estimates the commercial banks would require from 500-700 people for such volumes. Currently, Omarzay Co. employs 60-70 people between its various offices and branches. At CBK, Omarzay proposes to introduce a formal profit-sharing scheme for employees, and has asked UNIDO for information on how such schemes are operated in other countries.

Omarzay considers that for the last 15 years or more, industrial development in Afghanistan has been hampered on the one hand by an unhelpful socio-economic environment; and on the other, by many (not all) factory-owners who have been more interested in taking dubiously honest advantage of concessions offered by governments, than in serious and sustained industrial operations. He hopes that the environment will now improve, and by concentrating on the serious industrialists, he expects to expand industrial finance operations - including l/c business - through CBK.

Industry will nevertheless be only one sector of CBK financial operations and investment. Trade, particularly import-export trade involving l/c s, will continue as the largest sphere of operations. Thus CBK will have multi-sectoral operations, and will not be dependent on the fortunes of only one sector for its prosperity.

Initially, CBK will operate on equity funds only. In its first year, all shareholders will probably be Afghans, and the capital will not exceed US\$10,000,000. Foreigners are however interested in becoming shareholders. These include Dubai and Pakistani businessmen, and various foreign banks: Bank of New York and Bankers' Trust Company in New York; Bank Ahmad in Dubai; and the Soviet Foreign Trade Bank in Moscow. As business and the need for capital both build up, CBK will admit foreign shareholders alongside Afghans. It is expected that in about 5 years time, when the equity has built up to US\$60-70 million, the share distribution will be approximately: 60% Omarzay and his family; 30% other Afghan private citizens (but excluding government ministers, other high government officials, and Party members); 5% foreign private citizens, mostly traders; and 5% foreign banks.

Thereafter, CBK will further expand its assets by calling in loan capital, largely from foreign sources. One of its principal criteria for choosing foreign bank associates, is the ability and willingness of the foreign bank to provide loans, lines of credit, and overdraft facilities to CBK.

CBK will establish its headquarters in Kabul, where two floors of a centrally-located office building have been provisionally earmarked for it. It is planned to install therein the full range of modern data-processing and communications equipment. Branch offices will be established, initially in Mazar-i-Sharif, Peshawar, Dubai, Moscow, and New York; and later probably in other cities in and out of Afghanistan.

The mainstays of CBK will be foreign exchange dealings and the short-term finance of import and export trade through letters of credit and other means. The bulk of this business will be with traders, but a significant and probably increasing proportion will be with Afghan manufacturers, whether for importing materials and equipment or exporting finished

products. Moreover, Omarzay has frequently made investments to help smaller companies start up in Kabul and other cities. He will continue this activity on his own account, but with his close involvement in its management, it is predictable that CBK will itself progressively take on an investment banking function. Much of this activity will probably involve industrial enterprise. It will be recalled that CBK's Articles provide for significant equity investment in 'productive' enterprises, specifically including factories; and Omarzay himself is interested in promoting, and investing in, industrial projects.

Other significant features of CBK and its future sister-companies include Soviet industrial connections. Omarzay's import trading operations provide him with knowledge of, and dealings with, Soviet factories. To expand this further, the Soviet Foreign Trade Bank is interested in setting up a joint-venture investment bank with Omarzay and/or CBK. The proposed venture will expand Soviet industrial exports, primarily to Pakistan, by investing in Soviet factories and financing increased export shipments from them. Omarzay also has dealings with interests in Iran, and is projecting at least one large industrial joint-venture there.

ANNEX 3

Project Document on Utilisation of Soviet Raw Materials

PROJECT DOCUMENT

for the utilization of Soviet Rouble Contribution

PROJECT NUMBER : AFG/90/003

AETF NUMBER :

PROJECT TITLE : ASSISTANCE IN THE RECONSTRUCTION OF THE PRIVATE SECTOR

IMPLEMENTING AGENCY/PROJECT : UNIDO: AFG/90/003

TARGET PROVINCES : KABUL, BALKH, HERAT, KANDAHAR, AND POSSIBLY OTHERS

TOTAL ESTIMATED CASH REQUIREMENT :
 FROM CONTRIBUTION: SOV. RBL : TO BE DETERMINED

EST STARTING DATE : NOVEMBER 1991

EST COMPLETION DATE : JULY 1992

BRIEF DESCRIPTION/OBJECTIVES :

The proposed procurement is of raw materials needed for the reconstruction/expansion of small and medium size enterprises in private Afghan manufacturing and building construction: plus some test -ing equipment to assure adequate quality control of materials procured. The materials will form a major base of a revolving fund making short-term loans to Afghan private industry. The loan fund will be operated by an experienced Afghan financial institution, supported logistically by UNOCA/WFP facilities in Termez and Mazar-i-Sharif.

APPROVED BY UN STEERING COMMITTEE OF : 13 June 1991
 (DATE)

SIGNED:

 Chief of Mission
 UNOCA

 Designated signatory

 of UNIDO

DATE: _____

PROJECT OBJFCTIVES :

To assist national policy in the reconstruction of the private sector. To support the rehabilitation and expansion of commercially viable private Afghan manufacturing and construction enterprises, thereby increasing employment and benefiting consumers in the country. To assist the setting-up of a permanent and expanding revolving loan fund making short-term loans to Afghan private industry.

1. BRIEF BACKGROUND AND JUSTIFICATION

According to the experience of CODAPI - the arm of the Afghan Government charged with coordinating assistance to the private sector, and the UNIDO project's counterpart agency - as confirmed by several members of the UNIDO AFG/90/003 team in numerous contacts and surveys, one of the principal current problems of Afghan private industrialists is deficiencies of raw material supply to their factories.

These deficiencies come under several related headings. First, direct problems, for obvious enough reasons, in transporting the industrial enterprise's import shipments from abroad to Kabul. Second, sometimes problems of the first type in the past on a particular route - say, via Peshawar - have tied up consignments outside the country, leaving the enterprise unable or unwilling to re-ship them thousands of miles, or to finance fresh consignments. And third, particularly for smaller enterprises who purchase their materials (of whatever ultimate origin) within the country from traders, the shortages are transmuted into high purchase prices.

The supply deficiencies exist despite the fact that short-term working capital loans - primarily for the purchase of raw materials - are the type of finance which is currently commonest in Afghanistan; and the most familiar type too, alike to borrowers and to a range of lenders from banks to trade creditors.

As soon as the opportunity represented by the Operation Salam multipurpose rehabilitation fund (MRF) was explained to UNIDO AFG/90/003 by UNOCA at the end of April 1991, the UNIDO project set up a task force to research the needs of Afghan private industry in detail. Discussions with CODAPI counterparts, and Afghan engineers and industrialists, indicated that Soviet equipment - with few exceptions - is held in generally low esteem in Afghanistan. On the other hand, a wide range of Soviet industrial raw materials is valued and used among Afghan private industries. Acting upon this lead, follow-up discussions were held with active industrialists representing some 10 industries, from food-processing across to metal-working and construction.

The concept was put to the industrialists that a loan-fund might be set up, based on Soviet raw materials in common use in their respective branches. The loans would be short-term. Specific amounts of raw materials would be made over to individual credit-worthy enterprises, in return for their contracting a short-term monetary loan obligation to the fund. The amount of the loan principal - interest payments aside - would be set by valuing the made-over raw materials at, or very narrowly below, their current market price in Afghanistan.

Principal and interest would be repayable in money, which would then be used to finance further short-term loans to Afghan private industry. It may be hoped that the follow-up loans would also be substantially based on Soviet raw materials purchased with the monetary proceeds of prior loans. However, the extent of such further, commercial, Soviet sourcing would depend on the balance of economic advantage in particular supply cases.

In this way, a financially-viable loan fund would be set up; and the

supply of raw materials to industry permanently and progressively increased, hopefully bringing their real prices progressively down. Both these effects - increased supply and decreased real prices - would help substantially the recovery of Afghan industry and industrial employment, reduce the need for imports of finished products and also assist industrial exports. It was emphasised to the industrialists that any such scheme would be operated at a profit to the loan fund, to enable the fund (and the supply of materials) to grow. It would not involve grants or concessionary prices to the fund's industrial borrowers.

The great majority of industrialists consulted, responded very favourably to this concept. They have cooperated by supplying specifications, current prices, and required quantities, of many raw Soviet raw materials in common use in their industries. Suitably collated and discounted, a detailed combined list of requirements - which would constitute the initial base of a loan-fund - has been passed to UNOCA for pricing in the Soviet Union. The list, with main minor subsequent additions, is appended as Annex 1. It forms the procurement list requested in this project request, and is further discussed below in Section 4, Inputs.

2. Relations with Other UN Projects/Programmes

The primary relation of the proposed procurement is to UNIDO project AFG/90/003, and to the Afghan private industrial sector which the project is designed to assist. However, it is believed on good authority that at least two other UN projects are proposing parallel procurements from the Soviet Rouble Contribution to Operation Salam: AFG/85/017+AFG/86/003 Solar and Renewable Energy; and the UN-sponsored study-project toward improved telecommunications facilities. Although the clientele of these other projects is not restricted to private industry, improvements in economical energy sources and efficient telecommunications facilities are much desired by Afghan industrialists: and are likely to benefit their enterprises, operating in tandem with the increased raw material supplies proposed herein by UNIDO AFG/90/003.

3. Activities/Local Counterparts/Beneficiaries

The direct beneficiaries of the proposed procurement will be Afghan private small and medium industrial enterprises - most of them currently employing between 10 and 100 people - in all the main industrial centres of the country. Because the raw materials will be supplied on a short-term loan basis, the loan repayments plus interest will finance further and similar loans indefinitely, on a progressively increasing overall scale. Thus the benefits and direct beneficiaries will not be limited to the initial borrowing raw material consignees. The procurement will make possible a permanent and increasing addition to the raw material supplies of Afghan private industry.

The indirect beneficiaries of this assistance to reconstructing industrial development are evident. The industrial enterprises will employ more people, probably at progressively increasing wages; there will be increased business and employment for their industrial and agricultural suppliers and trading customers; increased domestic industrial production will, in competition with imports, lower prices to the consumer; and, as finished good imports decline and industrial exports increase, the entire community stands to benefit from the increased net availability of foreign exchange.

The activities associated with the procurement will set up an administrative structure to secure and maintain the anticipated benefits. Four (partially-overlapping) functions may be distinguished:

- procurement;
- quality control;
- storage, and
- loan administration.

It is essential that, both initially and on a continuing basis, procurements of the right kinds and quantities of materials from capable suppliers (who should be promptly paid) are planned and made in an efficient and timely manner. Linked with this, especial attention will be paid to quality control: in choosing suppliers and keeping them fully informed of required specifications and quality control procedures; and in checking the quality of shipments at the supplying factories, at the Soviet-Afghan Frontier, and in the storage facilities within Afghanistan.

It is further envisaged that central storage will be effected in

specifically-designated portions of the WFP warehouses in Mazar-i-Sharif. These would be used as a receiving and clearing depot for raw material stocks. Because these would be used in short-term revolving loans, specific material lots will typically reside only a relatively short time - usually from one up to three months - in the Mazar facilities, before being on-shipped to the loan-client enterprises' own premises. UNIDO AFG/90/003 staff have inspected the WFP Mazar warehouses and have had held extensive discussions with their management, who anticipate no problems in accommodating the volumes and types of materials envisaged in addition to their own storage requirements and those of FAO, UNICEF, etc. UNIDO AFG/90/003 staff have also inspected the Termez railway-offloading and warehouse facilities of the Soviet Transport Company, who are cooperating with WFP in transit storage and shipment of Operation Salam commodities into Afghanistan.

Finally, loan administration - the selection of industrial loan-clients, negotiating loans with them, and collection of the loan dues - is a separate but related activity that will be handled by an experienced financial institution as operator. UNIDO has already identified a strong Afghan candidate institution, and is currently preparing to negotiate a loan-fund operating contract with it. Among its other activities, the loan-fund operator will liaise closely with the other functions to ensure that the fund's loan-clients are appropriately served with economical, quality-tested, and timely shipments of the right kinds of raw materials. In a sense, if the entire related bundle of activities is conceived of as an enterprise, the loan-fund operator will combine and handle the credit and marketing functions of that enterprise.

To ensure essential control and efficiency at the outset, some UN/ international personnel will participate in and oversee certain functions for the first year or two of operations. This will particularly be true in, for example, quality control and the quality-control aspects of procurement, and storage. During this initial period, the international staff will work with and train up Afghan counterparts to take over the functions fully. Both international and Afghan inputs - both material and personnel - are further discussed below in Section 4, Inputs.

4. Inputs

To start with the Soviet raw materials proposed to be procured under the multipurpose facility, the list of such materials is - as was noted in Section 1 above - based on extensive discussions and work with private Afghan industrialists in several sectors, viz.:

- food processing;
- packaging, primarily cardboard cartons;
- textiles;
- carpets;
- garments;
- tanning and leather goods
- plastic products, primarily footwear;
- woodworking and furniture;
- metal-working, especially spare parts manufacture, and
- construction of buildings.

In each sector, one to three leading and active private industrialists known to CODAPI and UNIDO, were consulted to represent the common material requirements of their industries: a list of these industrialists is appended as Annex 2. Attention was focussed only on materials in common or general use across a number of enterprises; and further, only on those material types and grades for which the industrialists felt that Soviet suppliers and qualities are readily acceptable in Afghanistan. Based on this concept, detailed lists were drawn up of specifications and quantities required by each industry. The quantities were tailored to the combined requirements of the active portion of each industry: that is, they were not intended to serve inactive, possibly semi-derelict and/or surplus, private industrial capacity.

Then, to arrive at the quantities actually proposed for the procurement, two further 'discount' factors were applied. First, based on the estimated rapidity of stock turnover in each industry, quantities were scaled to accommodate only few months' requirements, typically ranging from 3 months in the food-processing industry to 6 months in e.g. the building-construction industry. Secondly, the quantities so calculated were again halved, to allow for an estimate that only half of the active element in each industry will, at least initially, become loan-clients of the fund. The other active enterprises may still prefer other channels of raw material supply, or may not be judged creditworthy by the loan-fund operator. Despite this conservatism of approach, it may be expected that even those industrial enterprises which are not direct loan-clients, will benefit indirectly from the easing of raw material supply conditions generated by the procurement and the loan-fund's operations with it.

The resultant combined and collated raw materials list (Annex 1) constitutes the primary proposed material input. It will be supplemented by (a) appropriate areas of WFP storage space in Mazar-i-Sharif; and (b) a relatively small quantity, to be added to the proposed Soviet procurement, of industrial materials-testing equipment to be installed in a quality-control laboratory. The laboratory would operate under UN auspices and control, initially mostly in Termez - either at the UNOCA/WFP office there, or at the port/warehouse facilities of the Soviet Transport Company - to check shipments before they leave Soviet territory. Later, as confidence in the supply system builds up, the equipment will be progressively shifted to a site adjacent to the Mazar storage facilities.

Inputs of personnel - mostly Afghan, but with some international/UN staff - are also crucial. They would come under several headings.

First, to assist with initial procurement and continuing quality control at the Soviet suppliers' factory sites, the services of an international firm of quality-control engineers will be engaged. One such firm, based in Switzerland and operating (among many other countries) in the USSR, has already been identified; but other candidates will be identified and reviewed by UNIDO. The selected firm's fees will be paid on a commission basis, as an operating expense of the loan-fund. Besides helping with the initial identification, vetting, and liaison with Soviet suppliers - functions which may also involve the procurement team of engineers to be set up by UNOCA in Moscow - the firm will advise on the equipping and procedures of the quality-control laboratory to be established in Termez. Thereafter, the firm will be responsible for sample quality pre-shipment checks at the Soviet suppliers' factories; and may also provide some on-the-job training to Afghan quality-control counterparts.

UN direct-hire international staff will be based in Termez and Mazar. One will probably be a Soviet-national engineer, hired on a short-term renewable contract and based in Termez. He or she will expedite procurement orders and their shipment to the Soviet-Afghan border; and will assist in expanding the range of suppliers, particularly in the neighbouring Soviet Central Asian republics. For a relatively short initial period, perhaps up to one year, this engineer would be paid from UN funds. Thereafter, his salary and expenses would be borne by the loan-fund as an operating expense. Similar arrangements would apply to the two or more Soviet-national quality-control technicians who would staff the laboratory in Termez.

For an initial two years, there will also be two or possibly three UNVs with appropriate engineering/logistics/accounting backgrounds: Two of these would be based in Termez, one to oversee the quality-control laboratory, the other to assist the Soviet engineer in procurement. A third UNV might be based in Mazar to oversee the fund's receiving, storage, and on-shipment operations at the WFP warehouses. Each UNV might have one or more Afghan counterparts whom they would train to take over their functions and responsibilities. The UNVs would be supported by an appropriate administrative input from the regular UNOCA/WFP international staff in Mazar and Termez.

All other permanent and semi-permanent staff, including the staff of the financial loan-fund operator assigned to fund duties, will be Afghan managers and employees. As with the Soviet-national engineer and quality-control technicians in Termez, some few of them, particularly on the quality-control side, may receive a short-term initial UN contribution to their salaries and expenses. Thereafter, they would be borne as operating expenses of the fund.

Finally, there will be provision for at least two sorts of short-term UN international input. First, about three man-months of UNIDO financial consultancy, to assist in the set-up of fund operations and subsequently to keep a specialist watching brief on their execution and development for the UN. Second, engagement by the UN - for at least an initial two-year period - of a qualified and respected firm of international auditors, to conduct formal (probably annual) audits of all non-technical aspects of procurement, storage, shipment, and loan operations.

ANNEX A

SOVIET RAW MATERIALS IN WHICH UNIDO IS INTERESTED THROUGH UNOCA/
OPERATION SALAM, FOR A LOAN FUND FOR AFGHAN INDUSTRY

List for Budget Pricing in Roubles, cif Termez/Mazar

<u>Item</u>	<u>Unit Price requested (in Roubles)</u>	<u>Indicative Volume Required</u>
Sugar (for confectionery)	MT(Metric Tonne)	2,150
Glucose (for confectionery)	MT	255
Wheat flour (first grade fineness, for biscuits)	MT	305
Vegetable oil (industrial edible, for biscuits)	MT	30
Egg powder (for biscuits)	MT	25
Milk powder (for biscuits)	MT	10
Kraft paper (for cardboard food cartons)	MT	1,000
Glue (for manufacture of cardboard cartons)	MT	50
Viscose staple fibre yarn, 40/2 and 30/1	MT	100
Fluorescent dye powder (for textiles)	Kg	3,000
Dyed warm jacket outer cloth	Metre	45,000
Pyjama cloth	Metre	110,000
Warm lining cloth for jackets	Metre	380,000
Printed Organdy cloth for blouses	Metre	120,000
Outer velvet for childrens' winter jackets	Metre	170,000
Blue jean denim	Metre	120,000
Dyed cotton shirtings	Metre	45,000
Polyester interior padding for jackets	Metre	250,000
'Green' upper leather	Sq ft	600,000
'Green' lining leather	Sq ft	125,000
'Green' vegetable-tanned leather (bags, belts, etc.)	Sq ft	25,000
Leatherboard for insoles of footwear	Sq Metre	38,000
Granulated PVC compound for injection moulding	MT	350
Sodium sulphide (for tanning)	MT	200
Ammonium sulphate (do.)	MT	55
Sulphuric acid (do.)	MT	60
Lime (do.)	MT	310
Common Salt (do.)	MT	600
Chromosole-B (do.)	MT	400
Sodium bisulphite (do.)	MT	20
Calcium Formate (do.)	MT	55
Black iron sheets 1m x 2m x 0.5 to 2.0mm	MT	155
Galvanised iron sheets (flat & corrug.) 1mx2mx0.5mm	MT	50
Angle iron 6m, 40x40x4mm	MT	50
U-Iron, No. 10 beam shape	MT	25
Wood boards 5m x 100mm x 20 or 25mm	Cub metre	210
Thornwood rounds, diameters 45,50,60mm; for construction and furniture	Cub metre	375
Plywood boards 2400x1200x4 or 8mm	Cub metre	100
Chipboards 2400x1200x10, 16, and 19mm	Piece	4,500
Petrol mix paints for metals	Kg	15,000
Oil-based paints for wood, exterior/interior	Kg	5,000
White glue, wood/wood and wood/formica bonding	MT	20
Sponge and rubber foam 2000x1000x10 to 100mm	Piece	4,000
Square iron pipes 10x20mm, 20x20mm, 20x40mm, etc.	MT	150
Round iron pipes, diameters 10,16,20,25,30mm	MT	150
Cement 400 mark (medium grade quality)	50 kg bag	25,000
Steel reinforcing bar for concrete, 6 to 16mm	MT	375
Lead plumbing pipe, diameters 1,2,3 inches x 6 m	Piece	1,250

Glass sheets, 1m x 2m x 3 to 5mm	Piece	7,500
Power cable < 25 amps, 2 ply, 3 ply, 4 ply	Metre	3,000
Gordum-wood beams, 5m x 60mm x 60mm	Cub metre	250

UNIDO AFG/90/003
Kabul, 15 May 1991

ADDED AS SUPPLEMENT: 21 May 1991

Woolen yarn (fine and medium) for handwoven carpets	Kg	17,500
Welding bar for steel fabrications (3mm, 4mm)	Kg	38,000

ANNEX B

LIST OF COMPANIES SUPPLYING INFORMATION ABOUT RAW MATERIAL
REQUIREMENTS OF THEIR INDUSTRIES

I. FOOD PROCESSING

1. Bradaran Sharifzada Confectionary Factory, Kabul.
Engineer Zainullah Saighani (President)
Tel: 43865, 23931

2. Macaroni Etefaq, Kabul, and
Mino Cake, Kabul.
M. Mohsin (President of both factories)
Tel: 23033

4. Raisin Factory OZOM, Kabul.
Abdullah Faizi (Vice President)
Tel: 31847
30286- Ext. 5

II. CARDBOARD CARTONS

1. Shahram Factories, Kabul.
Sima Qarshi (Vice President)
Tel: 24272, 25793, 65109

III. HAND-WOVEN CARPETS

1. Ewaz Badghissi Ltd., Kabul.
Mohd Ewaz Badghissi (President)
Tel: 32815

IV. TEXTILE WEAVING & FINISHING

1. Almas Textile , Kabul.
Majidzada Almas (President)
Tel: 24595

V. CONSTRUCTION

1. AMOO CONSTRUCTION, Kabul.
M. Sarwar Ghias (President)
Tel: 42397
-

VI. CLOTHING

1. Farzana Tailoring, Kabul.
A. Habib (President)
Tel: 40069 - Ext. 9
-

VII. SHOE FACTORY

1. Shirkat Sahami & Sunhati Dara Turkman Co., Kabul.
Mahram Ali (President)
Tel: 24397
-

VIII. TANNERY & LEATHER

1. Dara Barsakh Ind. Corp., Kabul.
Beki Bai Khalaj (President)
Tel: 61319
 2. Mr. Jaroslav Cabak, Int. Leather Expert UNIDO AFG/90/003
also has gathered much information on this aspect as the
result of his several observations and investigation in
Kabul Leather Industries , March - May, 1991.
-

IX. METAL INDUSTRIES

1. Kabul Felez Ltd., Kabul.
Eng. Rafi (Vice President)
Tel: 42733, 23737

X. MOBILE (FURNITURE)

1. Samimi Mobile
(Nasrullah Samimi Sponge Mill)
Nasrulla Samimi (President)
Tel: 20605

NBH

ANNEX 4

Strengthening Institutions' Evaluation Capacity: Industrial Profiles

Outline of Proposed UNIDO Technical Assistance Input

Objective

The TA input on Industrial Profiles (IP) would be part of the upgrading of capacities of CODAPI, IDBA, and the Ministries responsible for industry, in their role of assisting the development of private industry, in accordance with Output 2 of the project AFG/90/003. By strengthening these institutions' capability in the production of IPs and similar project evaluations, their capacity (in both their regulatory and promotional roles) to assist private industry, will be enhanced.

Outputs

1. Training imparted to 12 professional officers on the staff of the above institutions in production of improved and updated IPs and project evaluations, sufficient to enable them to carry forward such production with only minimal and occasional inputs of foreign-sourced information.
2. 2 or 3 priority IPs produced by these officers during the course of learning-by-doing training supervised by short-term UNIDO international consultants.
3. Further IPs and/or project evaluations in 8 other industries produced by these officers, with UNIDO input being limited to provision of foreign-sourced technical and economic information not easily available in Afghanistan.

International Input

1. 4 man-months of international consultant time conducting the learning-by-doing training in Afghanistan.
2. About 10 up-to-date information packages on specific industries to be profiled, collated from UNIDO HQ databases and/or by consultants in Europe or other major industrial regions.

Timing

- | | |
|--------------------|--|
| 1991, 3rd. quarter | : screening and selection of candidates for training; selection of the first 2 or 3 industries to be profiled. |
| 1991, 4th. quarter | : collation of information packages on the first 2 or 3 industries to be profiled. |
| 1992, 1st. quarter | : Learning-by-doing training in Kabul, using the above packages, and the 4 man-months of international training consultancy input. |

1992, 2nd. to 4 th.
quarters

: production of 8 or more IPs and other project evaluations by the upgraded Afghan professionals, supported by further industrial information packages supplied through UNIDO HQ.

Further Comments

1. The Afghan professional staff to be trained, subject to further discussion with the relevant institutions, would be drawn 4 from CODAP1, 4 from IDBA, 3 from CIES, and 1 from the Research Institute of the Ministry of Mines and Industry.
2. These Afghan staff would, in the normal course of their duties, be responsible for evaluating or promoting private industrial enterprise new ventures, diversifications, or major expansions or rehabilitations. They would have some engineering, economic, or financial management background. They should also be competent in at least basic business English. Otherwise-qualified candidates should be screened by AFG/90/003 for this language competence by the end of the 3rd. quarter, 1991; and in appropriate cases required to attend an English course during the 4th. quarter, at the UNESCO Language School in Kabul or such other school as may be approved by the CTA of AFG/90/003.
3. The international consultancy input into the learning-by-doing training in Kabul would comprise:
 - 1 lead consultant, Economist/Project Evaluation Specialist (2 man-months);
 - 2 specialist consultants, Engineers conversant with particular industries or industry-groups (one man-month each);

The training would proceed over a two-month period, but would not involve all trainees at all times. Ideally, all trainees would attend a lecture/workshop session for about 4 days near the start of the period, at which the basic concepts of: costing and financial analysis; demand appraisal; technical and input supply appraisal; economic analysis based on domestic resource cost calculations and border prices of tradeable goods; and the use of computer spreadsheets; would be introduced.

Thereafter, staggered sub-groups of 3 to 4 trainees would be formed, to work with one or other of the international consultants for (say) alternate weeks on the priority 2 or 3 IPs. This would ensure that the trainees will not face an impossible burden imposed by the combination of their training and their normal duties. Possibly, this arrangement could result in two or more complementary, or even 'rival', IPs being produced in each industry, one from each sub-group. If so, comparative analysis of the different versions would enrich the final wrap-up session. This session would last about 3 days during the final week of the training period, and would bring all the trainees together again for discussion of results, finalisation of IPs, and recapitulation of the basic concepts.

4. The data required in the information packages supplied via UNIDO HQ on the industries to be profiled would be of a severely practical nature, with emphasis on supply-side data and up-to-date-ness of all prices and other economic variables. Principally, there would be required:

- enough general information on relevant technologies and processes to provide a reasonable grasp of technical issues and choices in the industry concerned;
- (for export industries only) information on product and market trends in the main relevant export markets;
- lists of equipment required for projects at one or more relevant scales of output, the equipment as far as possible being easy to maintain and (given low wages and shortages of foreign exchange in Afghanistan) not over-mechanised in peripheral operations such as packing and materials handling;
- lists of candidate suppliers of such equipment, together with budget prices, and if possible brochures indicating inter alia space and utility requirements;
- lists of the main material requirements, together with the world market prices of those likely to be mainly sourced outside Afghanistan, and
- the world market prices of other commodities relevant to the economic analysis of projects and industries, e.g. finished good outputs (whether exported or not), industrial fuels, and basic construction materials such as steel and cement.



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

DP/AFG/90/003/11-02

- Post title:** Consultant in small business financing
- Duration:** 3 months
- Date required:** As soon as possible
- Duty station:** Kabul, Afghanistan
- Purpose of project** To expand the role of the private sector in Afghanistan by providing financing and services to 50 businesses and training and other support to Afghan institutions that assist businesses and entrepreneurs.
- Duties:** Under the direction of the Chief Technical Advisor and taking into account the opinions and wishes of Afghani counterpart officials, Consultant will:
- 1) Undertake a study and prepare a detailed and comprehensive plan for the establishment of a financing scheme for small businesses in Afghanistan. This plan will address organizational and policy issues, and will include a schedule for the establishment of the financing scheme.
 - 2) Prepare an Operations Manual that provides detailed instructions for the operations of the financing scheme. This manual will provide an explanation of procedures and policies related to the day-to-day administration of the financing scheme, including lending procedures and requirements, loan portfolio administration, and collection procedures.
 - 3) Assist in the implementation of the plan prepared in 1) above, and provide training for financing scheme staff in the operation of the financing scheme.
 - 4) Prepare a final report, discussing the activities and accomplishments of the consultancy, including recommendations for further development or improvement of the financing scheme.

Applications and communications regarding this Job Description should be sent to:

Project Personnel Recruitment Branch, Department of Industrial Operations
UNIDO, Vienna International Centre, P.O. Box 300, A-1400, Vienna, Austria

- Qualifications
- 1) A minimum of 10 years experience in banking, or other commercial or industrial financing activities, of which at least 2 years must have been in the development, operation, or evaluation of lending or investment schemes for small businesses.
 - 2) Ability to write well.
 - 3) B.S. required. A Masters of Business Administration, or other degree in Business Administration, Finance, Accounting, or the like, is especially desirable.

Language English, but knowledge of Afghani is desirable

Background Information:

The Government of Afghanistan believes that its best hope for economic development is the existence of a strong private sector. Unfortunately, there is not now much support being given to enterprises, and there is a lack of programmes and trained people who can provide useful services. In addition, private sector enterprises are now constrained by many of the laws, policies, procedures and practices that Government (intentionally and otherwise) imposes on them.

This project proposes to take the first steps in addressing those problems. Immediate, direct support (in the form of business consulting services, specialized consulting services, seminars and workshops, and modest financing) will be provided to a select group of the most worthy private enterprises and entrepreneurs. This will lead to greater sales and profitability for these companies, which will have a salutary effect on the economy of the country. But more important, the support provided (and the success of those enterprises) will serve to encourage the formation of other enterprises.

This project will illustrate the types of services that benefit private enterprises. At the end of the project, these services (consulting services, training programmes, and the financing programme) can be continued by Afghan institutions, or serve as models for other programmes that can be created.

Institution-building will also be accomplished, so that the infrastructure remains in place at the end of the project to continue providing the same or similar support to the private sector. Support institutions will have trained people with the capability to prepare and promote investment projects, provide consulting services and training programmes for private enterprises, and supervise the administration of financing schemes for the private sector.

Finally, the institutions will finish this project with a clear vision of how to continue the development of the private sector. There will be plans prepared in this project for revamping Government legislation, policies, and procedures to make the environment an attractive one for investors and entrepreneurs. A second report will outline the steps needed for manpower development, and a third plan will establish a proposed programme for additional assistance to the private sector enterprises and institutions.

This combination of immediate direct support and institution-building, combined with the preparation of plans for the further development of the private sector will provide Afghanistan with the support it needs to begin the process of developing the private sector.

Annex 6

Summary Schedule/Itinerary
(All dates 1991)

- 25-26.3 En route to UNIDO Vienna. Finalisation contract/
mobilisation details, plus technical briefing on
revolving fund and industrial profiles.
- 27-28.3 En route via Rome/New Delhi
- 29.03 En route to Kabul. Receive CTA's proposed programme for
consultancy until ca. 25.4, emphasising assessment of
evaluation role of CODAPI plus input to senior management
seminars to Afghan private enterprises.
- 30.03 Contacts with UNDP and CODAPI, including Mr. Qasimayr (Gen.
Pres. of CODAPI); his deputy; Mr. Azizi, Pres. of Technical
Assistance; and Ir. Nasirullah, JK counterpart from Evaluation
Dept.
Read and analyse 13 files on enterprise visits by CTA and other
AFG/90/003 staff.
- 31.03 Meet CODAPI counterparts Nasirullah and Ir. Zalmai. Sketch
draft activities 1st. month, including inputs to seminars.
Meet with Ir. Afif, Pres. Supervision and Evaluation, CODAPI.
First steps made for a programme of visits to enterprises,
and formal and informal finance sources.
- 01.04 Continued admin. contact with UNDP. Meet JPO Mr. Fernando.
Arranged first visits to enterprises and finance sources.
Met with Nasirullah on accessing CODAPI Evaluation Reports.
Wrote finalised Action Plan for first month to 30.4, for
sending to UNIDO HQ.
- 02.04 Visited with Nasirullah:
Mellie Plastics, Pul-i-Charkhi; and Ferzana Tailoring,
Kabul.
Wrote Enterprise Visit Reports (EVR) for above enterprises.
Received CODAPI Evaluation Reports from Nasirullah.
- 03.04 Visited Samimi Woodworking, and re-visited Farzana Tailoring.
Drew up draft schedule of visits for 06-11 April.
- 04.04 Discussed evaluation procedure again, first with Afif then with
Zaimal, working with Evaluation Report files.
Drafted with Training Consultant outline finance mgt. content
for 23-25 April Senior Management Seminar.
- 05.04 Wrote EVR for Samimi Woodworking and (revision) Ferzana
Tailoring.
- 06.04 Visited with Ir. Nasirullllah
1. IDBA
2. Kabul Plastics
Wrote EVR for Kabul Plastics
Worked with Ir. Zalmai on CODAPI Evaluation Report files.
Drafted Visit Schedule for April 14-18.
- 07.04 Visited with Ms. Lailoma, CODAPI Evaluation Dept.

1. Rahimi Textiles
2. Zahir Nazir Raisins

Wrote EVR for above.

Received from Afif revised draft CODAPI Evaluation Format and discussed same with Lailoma.

- 08.04 Received Evaluation Staff function information from Nasirullah.
Visited PT Bank
Wrote List of Questions for PT Bank via CODAPI.
Asked Ir. Zalmai to provide CODAPI Technical Assistance files on some recently-evaluated projects.
- 09.04 Delivered PT Bank questions to Gen. Pres. for transmission to Bank.
Visited with Ir. Omar, CODAPI Evaluation Dept.
 1. Ahmad Hadi Pressure Pots
 2. CAM Factory (Coca Cola)Wrote EVR for above.
Discussed Evaluation Procedure with Ir. Omar.
Ditto with Ir. Zalmai.
- 10.04 Visited with Ir. Nasirullah:
 1. Sharam Carton Factory (Quarshi Complex)
 2. Shahi Technic Ltd.Wrote EVR for above.
Discussed Evaluation Procedure with Ir. Zalmai, working with CODAPI files.
- 11.04 Visited with Ir. Nasirullah:
 1. Mellie Bank Afghan
 2. Omarzay Co. and another Serai Sharzda dealer.Passed PT Bank-type questionnaire to Pres. of Mellie Bank Afghan.
- 13.04 Visited with Ir. Nasirullah:
 1. Rahim Zada CarpetsWrote EVR for this.
Interviewed two seminar finance-lecturer candidates.
Further work with CODAPI project files with Ir. Zalmai.
- 14.04 Visited with Ir. Nasirullah:
 1. Aziz Delux Confectionery
 2. Sakhi Technical Co.Wrote EVR for these.
Interviewed third seminar finance-lecturer candidate; selected two candidates to do the three units, and roughed out their assignments with them.
- 15.04 Visited with Ir. Zalmai:
 1. Jowya TailoringWrote EVR for this.
Delivered finance material to, and discussed lecture outline further with, the lecturer for 2 of the 3 Fin. Mgt. units.
Wrote note on Fin. Mgt. lectures for CODAPI opening speech.
- 17.04 Cleared up files in office.
- 18.04 Started Preliminary Analysis Paper (PAPCEP) of CODAPI Evaluation Procedure.

- 20.04 Drafted schedule for 21-25 April.
Discussed Fin. Mgt. Unit I & III drafts, with Afghan lecturer.
Contacted CTA AFG/90/004 on small firms, IDBA, contacts.
Completed PAPCEP.
- 21.04 PAPCEP delivered to CTA: gave him summary update.
Visited with Mr. Cabak and CODAPI counterparts:
1. Sedigyar Tannery
2. Mowafaq Shoe Factory
Wrote EVR for above.
Discussed CODAPI project files with Ir. Zalmai.
Discussed Fin. Mgt. Unit II drafts, with Afghan lecturer.
- 22.04 Project Staff Meeting.
Tried to visit two big Serai Sharzda dealers, but both abroad.
- 23.04 Senior Management Seminar.
Finalised all Fin. Mgt. Units with lecturers.
Visited IDBA with CTA and Mr. Payoyo.
- 24.04 Senior Management Seminar (including Fin. Mgt.)
Met UNOCA programme officer with CTA, to discuss
possible USSR grant addition to potential revolving fund.
- 25.04 Senior Management Seminar (including preparatory meeting with
the participants' Finance Working Group)
Wrote Note on meeting with UNOCA, and distributed it to project
staff.
Discussed counterparts with CTA.
Discussed Soviet raw-material loan possibility with a Senior
Management Seminar participant, a clothing manufacturer.
- 26.04 Visited Beshant Ram, a big Serai Sharzda dealer.
- 28.04 Met with project staff on Soviet Raw Materials (R/M).
Visited IDBA, to further discuss their operations and
procedures.
- 29.04 Visited IDBA, to ditto.
Met Mr. John Westberg on his Industrial Legislation mission.
- 30.04 Met with CTA on Work Programme for rest of Consultancy.
Met with Finance Group of seminar participants.
Visited Kabul Felez Co. with UNIDO/CODAPI.
Visited Minister of Mines and Industry with CTA and Mr.
Westberg.
- 01.05 Met with ITC representatives and project staff on project/ITC
cooperation.
Drafted Memo on development of CODAPI's Evaluation/TA roles.
- 02.05 Met with construction industry representatives on Soviet R/M
needs.
Completed and delivered to CTA Memo on development of CODAPI's
Evaluation/TA roles.
- 05.05 Drafted and delivered to CTA, a mini-CV for the Prime Minister.
Drafted an Action Plan for 01.05-16.06.91.
Discussed Memo on CODAPI Evaluation & technical assistance roles
(MOCETAR) with CTA.

Discussed needs of industry for Soviet R/M with Mr. Azizi, CODAPI.

Visited Mr. Omarzay with CTA. Mr. Qasimeyr was also present.

- 06.05 Delivered to CTA a revised draft of MOCETAR for transmission to CODAPI, after Mr. Qasimeyr's return from Moscow, ca. 20.05. Visited IDBA to discuss their procedures further. Met Mr. Azizi and Ferzana Tailoring on Soviet R/M needs of the garment industry.
- 07.05 Met industrialists on Soviet R/M needs. Drafted and pouched Note to UNIDO HQ with Action Plan for May/June.
- 08.05 Met industrialists on Soviet R/M needs.
- 09.05 Met industrialists on Soviet R/M needs. Commenced analysis of Soviet R/M needs, industry by industry.
- 11.05 Prepared draft note on Serai Sharzda operation of Revolving Fund (RF). Visited UNDP Res. Rep. and Prime Minister with CTA and project experts.
- 12.05 Met Omarzay with CTA. Drafted schedule for completion of RF feasibility study. Re-contacted UNOCA, on pricing Soviet R/M. Met with metal-working firms on Soviet R/M needs, prices. Met Mr. Taufiqui with CTA on proposed Pakhtia grass-board project.
- 13.05 Delivered preliminary list of Soviet R/M needs to UNOCA. Met with Mr. Cabak and Pres. Tannery Assoc. on tanning Soviet R/M needs. Visited Marshal Shoe Factory with UNIDO/CODAPI Agreement secured with CTA and Azizi that Ir. Zalmai be a counterpart in place of Nasirullah.
- 14.05 Continued industry-by-industry analysis of Soviet R/M needs.
- 15.05 Reviewed Omarzay/Sarwar's basic concept of Commercial Bank of Kabul (CBK), with Sarwar. Started CBK Note. Agreed format for Zalmai to draft, recording Soviet R/M needs. Drew up confirmed list of Soviet R/M for budget pricing by UNOCA.
- 16.05 Reviewed CBK Draft Articles with Sarwar. Delivered confirmed Soviet R/M list to UNOCA for budget pricing. Continued CBK Note.
- 19.05 Meeting with Omarzay and Sarwar on CBK. Continued CBK Note. Started review of Mr. J. Westberg's first Draft Investment Law.
- 20.05 Meeting with Omarzay and Sarwar on CBK. Continued CBK Note.
- 21.05 Visited Baghdissi Carpet Factory with Mr. Yarmand, an

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- 19.05 Meeting with Omarzay and Sarwar on CBK. Continued CBK Note. Started review of Mr. J. Westberg's first Draft Investment Law.
- 20.05 Meeting with Omarzay and Sarwar on CBK. Continued CBK Note.
- 21.05 Visited Baghdissi Carpet Factory with Mr. Yarmand, an

- Afghan AFG/90/003 consultant. Discussed Soviet R/M needs of the carpet industry.
Drafted and delivered supplementary Soviet R/M list to UNOCA.
- 22.05 Worked with Ir. Zalmai on the Soviet R/M needs of the Mazar Fertiliser Factory.
Met with CTA and Mr. Qasimeyr on preliminary findings of the fund feasibility study, and the way forward.
- 23.05 Met Asifi, Gen. Pres. of Central Bank, with CTA, on RF feasibility study.
Discussed Art. 20 of Constitution re Enterprises with Mr. Qasimeyr, the CTA, and Mr. J. Westberg
Drafted with Ir. Zalmai telex via MMI to Mazar Fertiliser Factory: Zalmai to deliver telex to MMI Agency same day.
Discussed UNOCA schedule with CTA.
- 25.05 Met Mr. Qasimeyr with CTA.
Wrote Note to CTA on Pakistani experience with leather products development policy.
- 26.05 Briefed Merryck Fall of UNOCA on Soviet R/M progress and needs.
Met the Minister of Finance, Mr. Hakim, with CTA.
Met Agricultural Development Bank (ADB) with Ir. Zalmai.
Wrote Note on Asifi/Hakim meetings.
- 27.05 Started writing draft report on Findings and Recommendations of the Revolving Fund Feasibility Survey (FRRFFS).
- 28.05 Continued writing FRRFFS.
- 29.05 Concluded writing FRRFFS
- 30.05 FRRFFS printed, submitted to CTA, and transmitted to UNIDO HQ via hand of Mr. Cabak.
Further work done on Soviet R/M prospect, including meeting UNOCA with CTA.
Preparations begun for a trip to Mazar-i-Sharif and possibly Termez, in connection with Soviet R/M.
- 01.06 Discussed FRRFFS with Mr. J. Westberg
Reviewed and discussed with Mr. J. Westberg his first Draft Investment Law
- 02.06 Discussed Soviet R/M aspects with CTA, and commenced drafting prodoc annex on topic for UNOCA Steering Committee.
Drafted schedule for 2-16 June.
- 03.06 Met Messrs. Sakhi and Mandarkhail of Min. of Mines & Industry re Industrial Profiles.
Continued drafting prodoc annex on Soviet R/M in the RF.
Preparations for trip to Mazar and Termez in connection with Soviet R/M.
- 04.06 Concluded drafting prodoc annex on Soviet R/M in the RF.
Draft reviewed and concurred with by CTA.
Briefed Ir. Zalmai on:
a. Further work with Soviet R/M documentation
b. his meeting planned with Min. of Food & Light

Industries - CIES - on Industrial Profiles.

- 05.06 Flew to Mazar, made contact with UNOCA and WFP.
- 06.06 Visited WFP Mazar, and UNESCO silk project Mazar.
Wrote notes on above visits.
Liased with UNOCA management re a visit to Termez on 8 June.
- 07.06 Confirmed with UNOCA the visit to Termez.
- 08.06 Travelled to Termez.
Reviewed Soviet R/M requirements and procurement problems with Paolo Lembo, UNOCA Chief of Mission Termez.
- 09.06 Visited Termez facilities of Soviet Transport Company.
Reviewed Soviet Transport Co. transit arrangements Termez-Mazar with Mr. Shin, WFP Termez.
Travelled to Mazar and Kabul.
Started re-checking Soviet R/M requirements with Ir. Zalmai.
- 10.06 Met with Ir. Zalmai, Mr. Sakhi Karimi, Pres. of Centre for Industrial Extension Services, Min. of Food and Light Industries, about Industrial Profiles.
Wrote Note on above meeting.
Reviewed Industrial Profiles needs with CTA.
Continued re-checking Soviet R/M requirements with Ir. Zalmai
- 11.06 Met Sarwar on UNIDO RF operator proposals.
Wrote note on above meeting.
Continued re-checking Soviet R/M requirements with Ir. Zalmai.
Wrote up Soviet R/M procurement into a prodoc annex for UNOCA.
- 12.06 Met with CTA, Omarzay and Sarwar on UNIDO RF operator proposal.
Wrote note on above meeting.
Delivered Soviet R/M prodoc to UNOCA.
Concluded re-checking Soviet R/M requirements with Ir. Zalmai.
- 13.06 Met with Mr. Khalil, the new Gen. Pres. of the Central Bank.
Attended, with CTA, the inter-Agency UNOCA steering committee meeting. Soviet R/M prodoc annex considered and approved by the meeting.
Reviewed and sorted file material generated by the Consultancy.
- 15.06 Wrote note on activities of 13 June.
Reviewed the results of the Consultancy with CTA.
- 16.06 En route, Kabul-Prague.
- 17.06 En route, Prague-Vienna.
Commenced de-briefing with Mr. R. Kennedy, UNIDO HQ.
- 18.06 Continued de-briefing with Mr. R. Kennedy and others.
Wrote summary note on points raised concerning the draft report on the RF.
- 19.06 Concluded de-briefing with Mr. R. Kennedy and others.
En route, Vienna-Scotland.
- 20.06 Commenced write-up of Final Report.

- 21.06 Continued write-up of Final Report.
- 22.06 Continued write-up of Final Report.
- 23.06 Continued write-up of Final Report.
- 24.06 Concluded write-up of Final Report. Final Report printed and transmitted to UNIDO HQ.