

Growth Sputter

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KABUL -- The Afghan economy has grown substantially, albeit from a very low base, since 2002. However, that economy is now in danger of stalling. The opportunities, which seemed boundless just a few years ago, now seem lost and frustration and cynicism are mounting. All is not lost yet, but swift action is needed to preserve the gains of the past few years and ensure that development continues.

At first, policymakers did much to create an environment conducive to investment. Within the first two years after its liberation from the Taliban, Afghanistan had a Singapore-style High Commission for Investment to encourage private capital inflows from abroad; an Investment Support Agency to help foreign businessmen navigate the Afghan regulatory system; a stable new currency backed by reserves that have increased to \$2 billion today from nothing in 2002; the country's first fully serviced industrial parks; and a new tax and tariff regime that started to roll back the dross of 20 years of communist-inspired economic policy.

The economic boom that ensued has pushed our per capita gross domestic product to a projected \$400 by 2008, up from \$354 this year, \$300 in 2005 and just \$182 in 2002. The average annual real GDP growth from 2002 to 2005 comes in at 16.6%.

Yet these gains are in serious jeopardy, for several reasons.

First and foremost, the reform vision so prevalent in the early days is no longer there. Ashraf Ghani, who engineered Afghanistan's taxation and currency reforms and secured billions from the international community, was dismissed as Minister of Finance in 2004 in a cabinet reshuffle. Sayed Mustafa Kazemi, a former mujahedeen leader who worked as Commerce Minister and Chairman of the High Commission for Investment to bring his former brothers in arms on board with economic reform, is currently a member of parliament, opposition spokesman and chairman of the parliamentary economic committee.

Other capable technocrats were either pushed out of office as a result of bureaucratic turf-warring within the ministries or left of their own accord in frustration over low pay or lack of progress. With the leadership gone, many second-tier bureaucrats also left. Suddenly there was a huge leadership vacuum. The system stalled and began reverting to its old ways.

One result is that some institutions launched by reformers to jumpstart development are now getting in the way. The Afghan Investment Support Agency or AISA -- our much flaunted one-stop shop for registering a business in Afghanistan -- now takes 10 days to register a new business. It used to take four. Even worse, registration fees for small business have risen to \$1,000 from \$100. A small business operator willing to invest \$10,000 is required to spend 10% of his capital in registration fees. In return for this quality service, AISA's annual budget has ballooned to almost \$2 million from \$400,000 in 2002.

Government indecision is also taking its toll, especially in the natural resources sector. Afghanistan sits atop one of the largest copper reserves in the world, and the government is currently soliciting bids for a mining concession. But the process doesn't appear to be going anywhere. One reason is that the government has dithered in launching smaller-scale mining operations for precious stones, oil and gas, coal, gold and other smaller natural-resource deposits. Absent such small preliminary steps, international mining investors have no way of judging how hospitable a business climate Afghanistan will offer them, or even to make an educated guess about whether one could truly make money from mining in the country.

And then there's the security problem, which is not confined to the war against the remnants of the Taliban. Robberies and kidnappings carried out by garden-variety thugs are doing a lot to dissuade even the most ardent investors from committing to Afghanistan. Standard Chartered Bank was recently the victim of a \$3 million armored truck heist carried out in broad daylight across from the Turkish embassy in Kabul. At least three prominent Afghan businessmen (or their siblings) have been nabbed by professional kidnapers. Some foreign residents believe that the robbers and kidnapers are colluding with key members of the Afghan police force. Although such theories are difficult to confirm, the government certainly has done little to investigate or punish the culprits.

All of these problems are only compounded by another major problem facing the country: poorly allocated foreign aid. Money continues to be wasted in disturbing ways on white elephant projects that win political kudos in donor countries but don't do much for the Afghan people.

Consider the Afghan Womens' Business Federation (AWBF), a project funded by the U.S. Agency for International Development. It is supposed to "better coordinate" the activities of all Afghan business women. One of the main goals of the AWBF was to create an "Afghan Women's Design Centre" intended to "empower" Afghan women in the commercial handicrafts sector, a cottage industry where natural talent is abundant but there is a dramatic absence of good raw materials and professional guidance for entering the business-to-business or foreign markets.

A year later, not a single textile weaving or printing project has been initiated, and no professional strategy for competing with neighboring countries has been developed. In fact, the project has become politicized, burdened by infighting and allegations of graft. The American taxpayers' \$6 million spent on AWBF has achieved absolutely nothing.

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Afghanistan boasts some of the region's most entrepreneurial business minds. Afghan businessmen have achieved success in Central and South Asia as well as the Middle East and the former Soviet states. Afghans are desperate to do business in Afghanistan again.

But the government needs to act to create a conducive climate. A reduction in the number of ministries and some fresh, more capable, blood at the helms of remaining departments would help. Some of the savings must be directed to enhanced policing and the acceleration of major infrastructure projects as basic as electricity and water. The tax system is ripe for an overhaul. Attempts to slash indirect taxes such as value added taxes, highway fees (in Kandahar and Jalalabad) and "special telecommunications" taxes have already been partially successful, and the corporate and individual income tax rates could do with reduction.

The government is due to host an investment conference in Kabul in early June where such concerns will be addressed. The Afghan business community sincerely hopes this forum will lead to substantive changes in the way Afghanistan does business. Afghanistan's long suffering private sector and the Afghan nation deserve as much, if not better.

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