

Crossing the Afghanistan Border

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When Afghanistan President Hamed Karzai announced last year that Afghanistan was open for business, he wasn't kidding.

Since Karzai became leader of the interim government in 2002 following the fall of the extremist Taliban regime in late 2001, he has acted quickly to rebuild a nation riddled by war and torn with political oppression for the past quarter-century. In October 2004, his people expressed confidence in his policies when he was elected president in the nation's first-ever democratic elections.

Indeed, it's not only international organizations pouring billions into rebuilding this central Asian nation of some 25 million. Individual investment in the private sector is growing, and U.S.-Afghan trade continues to increase.

A Coca-Cola bottling plant will open on the outskirts of the capital city of Kabul in June, and a five-star hotel managed by Hyatt International Corp. is under construction near the U.S. Embassy and the international airport.

At first blush, it may appear only major corporations have a legitimate shot at turning a profit while rebuilding Afghanistan. Not so, say Afghan business leaders. In fact, numerous small companies — several from Southern California and at least one from San Diego — are slowly carving a niche in a variety of industries, from construction to telecommunications.

The going is slow, they admit, but there is potential to operate a successful business in Afghanistan, despite the nagging issues of corruption and security.

"If you make Kabul more interesting, more investors will come. For investment you need good infrastructure — roads, communications, electricity — and security," said Ahmad Omar, an Afghan businessman from National City who opened a small construction company here last year.

There may be obstacles to doing business here, but Omar is positioning himself to take advantage of reconstruction-contracting opportunities, be they with aid agencies, the government, or private citizens.

The faulty infrastructure offers a silver lining. According to a recent economic report by the U.S. Embassy in Kabul, there are "substantial opportunities" for U.S. companies to rebuild roads, sewers and power plants.

The Afghan Investment Support Agency, an independent group of Afghanistan's Ministry of Commerce, is among the primary contacts for investors serious in Afghanistan. The agency is responsible for promotion and government licensing of all new investment in Afghanistan.

AISA President and chief executive Noorullah Delawari, an Afghan expatriate who worked in banking for 32 years in Los Angeles, also is the president of Afghanistan's Central Bank. Akin to the Alan Greenspan of Afghanistan.

Delawari said it takes an average of four days to get a license for a business with up to a \$3 million

investment. The High Commission on Investment in Afghanistan deals with any amount above that.

The agency has registered 1,628 new investment projects amounting to \$868 million since October 2003, which could create 100,000 jobs, he said. About 40 percent of that investment is foreign — primarily from Afghan expatriates. There also are a number of investors from countries with traditional trade ties in Afghanistan — India, Iran, Pakistan, Turkey and Uzbekistan — as well as U.S. and European companies.

Some \$432 million in domestic and foreign money is invested in construction, while \$255 million is invested in the service industry, \$172 million in industrial firms, and \$9.8 million in agricultural businesses.

Fruits, Nuts And Carpets

Delawari's agency has identified agriculture, construction material supply and carpet manufacturing as the three sectors needing the most investment.

Afghanistan is known for its wheat, fruit, nuts, wool, mutton and sheepskin production, though the country used to be the world's largest exporter of raisins and was a major producer of grain, barley, grapes, melons and dried fruit.

While raisin production was hurt by damage to orchards and processing plants, as of 2003, Afghan dried fruit exports were the fourth largest worldwide, Delawari said. Pistachios, which were decimated by war and drought, are slowly being revived in the northern provinces.

There's an abundance of packaged and processed foods from the U.S. in local shops now, but it's typically bought in Pakistan and Iran, moved across the border and resold here at higher-than-U.S. prices. Pringles potato chips and Coke are almost as easy to find in corner stores as Afghan naan bread and kebab. Foreigners can get their fix of Del Monte canned fruit, Pop Tarts and Old El Paso salsa.

The lack of processed Afghan-made food and consumer products worries Delawari. The country has a trade imbalance — \$2.2 billion in imports and only \$300 million in exports.

Richard Kraemer, deputy chief of party of the Kabul office of the Center for International Private Enterprise, an affiliate of the U.S. Chamber of Commerce, said his agency has a cooperative agreement with USAID to establish 15 joint ventures between U.S. companies and Afghan partners in the next 2 ½ years.

Kraemer said his organization helped facilitate a relationship between Minnesota-based dairy products maker Land O' Lakes, Inc., and a dairy processing facility outside Kabul.

Delawari said the bulk of Afghanistan's once-thriving carpet business, which generated some \$700 million annually, migrated to neighboring Pakistan during 30 years of war and occupation.

Kraemer said efforts also are being directed toward modernizing the production of marble. Some of it, in the southwestern province of Helmand in particular, is high-grade stone.

"What they are doing now is blasting it out of the earth with dynamite and bringing whatever they can scrounge to Pakistan, where it gets cut. A machine to cut marble is only \$120,000. If you can start taking marble out of the ground with something other than dynamite, you can make a return on your investment in a pretty short period of time," he said.

Dialing In Telecom

Virginia Sheffield, secretary-treasurer and member of the board of directors of the Virginia-based Afghan-American Chamber of Commerce, runs a consulting firm that advises on regulation and market access throughout the world, especially in emerging and post-conflict markets.

Her company, Washington, D.C.-based Sheffield Advisors LLC, relates primarily to Afghanistan, but the firm consults on regulation and market access throughout the world.

Sheffield, who has advised businesspeople from California, Virginia, Texas, Washington, New Jersey and Florida, said half of her clients are in the process of starting businesses in Afghanistan. She also has advised Afghan expatriates keen on restarting businesses they abandoned years ago in Afghanistan.

"Those interested in Afghanistan these days most often come from sectors with a role in infrastructure development, because that is the chief business opportunity there. So, telecommunications, construction, transportation and building products are most popular," she said.

Sheffield Advisors' main background is in telecommunications, which has been among the "early entry trailblazers."

The largest private investment in infrastructure thus far, according to Delawari's agency, has been in telecommunications. While limited fixed-line telecommunications services exist, two private mobile operators are the most widely used. Investment in the networks is estimated at more than \$180 million.

Sheffield said since the two primary providers of GSM, the dominant standard for wireless communications, have a three-year moratorium on any other mobile phone license being granted that expires in January 2006, "everyone expects one or maybe two more (licenses) will be granted via auction."

Delawari's Afghan Investment Support Agency says further investment is needed to improve telecommunications in Afghanistan.

New York-based Globecom Systems Inc. has been awarded \$32.5 million in telecom contracts in Afghanistan. The latest contract of \$3.6 million was awarded in October to rebuild the infrastructure of the Ministry of Communications.

There is no limit on the number of ISP licenses that can be granted, Sheffield said. Further, it's possible these providers could compete with GSM.

"Beyond that, there are any number of technologies that marry (hard-wired, land-line networks) with wireless," she said. "There are other things like radio dispatch, vehicle tracking and monitoring, fleet management and alarm monitoring that use communications as the underlying technology to put it together."

There are many opportunities for private-sector investment, she said, "as long as the government does not decide to keep certain parts of the market for itself."

Knowing The Law

Delawari said a liberal investment law is about to be finalized, whereby businesses that set up in Afghanistan can be owned entirely by a foreigner, unlike other countries where there are strict joint-venture laws that limit the amount of ownership a foreign entity can have.

Laws also side with the investor, who can take all of the profit and investment out of the country.

“What’s good about investing here is that while certain laws may not be on the books, if you come in here with a large enough investment and you work closely with the government and the project is an enterprise that is going to provide jobs, you can feel pretty confident that the government is going to back you wherever necessary,” Kraemer said. “I guess that would be ... political maneuvering. Its not the sort of transparent and regulated process as for example rule of law.”

Challenges And Risks

Delawari blames a chronic electricity shortage for preventing more investors from coming to Kabul. Power is unreliable even in the center of town where it’s on-again, off-again, and it’s prohibitively expensive to run generators that are only powering households, never mind running a large-scale factory or irrigation system.

He also said that while the banking situation has improved with Pakistani, Iranian and Indian banks operating alongside Afghan banks, dealing with the country’s legal framework, including land-titling issues is a hurdle.

Whereas the constitution says foreigners cannot own land, there’s a debate as to whether foreign entities can. While that’s being debated there is a law that businesses can secure long-term land leases for up to 49 years and embassies can lease land for as long as 99 years.

Leasing and renting is further complicated by the fact that sometimes it’s difficult to ascertain if the person you are renting from actually owns the land.

As Kraemer explained, “Between Soviet rule, the wars, and land grabs that occurred afterwards, titling is very difficult.”

Corruption also remains a problem. According to one American who manages a range of businesses in Afghanistan and asked not to be identified, “Corruption is a huge issue that presents barriers to the development of the private sector. I’m aware that bribes are paid by businesses in order to do business.”

Security is another issue, though it doesn’t seem high on the list of concerns of foreigners living and working in Afghanistan.

Rocket attacks last summer and fall, the fatal August car-bombing at the Kabul residence of DynCorp employees, an October suicide bombing that killed one American and an Afghan girl on a busy Kabul street, and the kidnapping and subsequent release of three U.N. workers in November, appear to be fading memories.

The business community seems comforted by the disappearance of the terror attacks and is shrugging off the March murder of a Scottish adviser to the government’s Ministry of Rural Rehabilitation and Development.

“I feel confident that security has improved,” said Kraemer, who called the fatal shooting of the Scottish man, which occurred around the corner from Kraemer’s office, “a blip. The individual was

targeted. I don't believe it was a political killing in the sense that it was designed as a terrorist act in order to instill fear."

Said Sheffield: "The security situation is overblown. We have found Kabul to be no more or less dangerous than any large city.

"True, there is a continuing threat from terrorists, which may get worse at any time, but we don't find this to be much of a deterrent. In Iraq, where the situation is much more dangerous, there is no lack of private contractors there from all walks of life. That's not to say there are not high-risk regions in Afghanistan. There are probably a number of opportunities that are not being taken outside Kabul because, in part, of a lack of security."

Atiq Panjshiri, president of the Afghan American Chamber of Commerce said he often is asked about security issues.

"Among our members, Afghan and non-Afghan alike, I don't see security as much of a deterrent," he said. "It's easy to overemphasize security as a barrier to investment; I think one of our jobs as a chamber is to help people not familiar with Afghanistan understand the security risks and keep them in perspective."

Increased political stability seems to be the key to the general optimism of the business community.

"I'm happy with the situation now. We tried every kind of government. What's left is democracy," said Omar, of National City. Why are Afghans so optimistic?

"First of all the Taliban were hated by the people. Most people considered them invaders and terrorists. They were backward. No democracy, no progress, no women's rights. Now (the people) have hope. The whole world is watching. Many nations are contributing to peace and stability."